

DOCKET NO.: X06-UWY-CV-24-6085274-S	:	SUPERIOR COURT
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INSURANCE COMMISSIONER OF THE STATE OF CONNECTICUT	:	COMPLEX LITIGATION DOCKET
	:	
v.	:	AT WATERBURY
	:	
PHL VARIABLE INSURANCE COMPANY, ET AL.	:	MAY 20, 2025
	:	
	:	

REHABILITATOR’S SECOND ACCOUNTING AND STATUS REPORT

Andrew N. Mais, Insurance Commissioner of the State of Connecticut, as Rehabilitator of PHL Variable Insurance Company (“PHL”) and its subsidiaries, Concord Re, Inc. (“Concord”) and Palisado Re, Inc. (“Palisado” and, together with PHL and Concord, the “Companies”), submits this Second Accounting and Status Report as to the status and affairs of the Companies pursuant to Conn. Gen. Stat. § 38a-915(b).

I. Significant Developments since First Accounting and Status Report

On November 20, 2024, the Rehabilitator filed his First Accounting and Status Report on the status and affairs of the Companies. Background information regarding the Companies, the Rehabilitation proceeding, the Moratorium, and the Companies’ operations and financial condition were covered in the First Accounting and Status Report. It is available on the PHL Rehabilitation Website (portal.ct.gov/cid/home/phl). The Rehabilitator reports the following significant developments since November 20, 2024.

A. Marketing and Sale Process

The Rehabilitator, working with his investment banking, financial, actuarial and legal professionals, launched a process to market and sell (or reinsure) PHL or blocks of PHL business to

qualified buyers. This was a multi-phased project that included the following workstreams and deliverables:

- Development of a confidential actuarial appraisal report. The Rehabilitator’s actuaries prepared a detailed appraisal report by line of business leveraging PHL’s actuarial analyses with certain updated assumptions developed by the Rehabilitator’s team.
- Preparation of Confidential Information Memorandum. The Rehabilitator’s team developed a Confidential Information Memorandum (“CIM”) that provides prospective buyers with detailed information about the Companies, including PHL’s products and lines of business, reinsurance, investment portfolio, and operations.
- Population of a virtual data room. A virtual data room (“VDR”) has been established and populated with a range of materials and information for potential buyers, including the actuarial appraisal report, CIM, a summary of existing reinsurance arrangements, and details regarding the Companies’ arrangements with third-party administrative and investment providers. In order to access the VDR, potential buyers are required to enter into a confidentiality and non-disclosure agreement (“NDA”).
- Development of a list of potential buyers and initial outreach. The Rehabilitator’s team identified approximately fifty institutions as potentially interested parties to acquire all or a portion of PHL’s business. By late April, the Rehabilitator’s representatives had concluded initial outreach to substantially all of these parties, and forty-three were provided an NDA for review and potential execution. As of the date of this report, thirteen potential buyers have executed an NDA and obtained

access to the VDR. An additional twelve have provided comments on the form of NDA and are in discussions with the Rehabilitator’s legal counsel to resolve those comments.

Although the actions required to launch the marketing and sale process took longer than initially anticipated, they are now substantially complete. The Rehabilitator continues to believe that this path will lead to the best outcome for policyholders and other interested parties, delivering at least as much value as would be received in a liquidation of PHL.

B. Audited Financial Statements for Year-end 2024

Attached as Exhibit A are the audited statements of admitted assets, liabilities, capital and surplus as of December 31, 2024; the related statements of income (loss), changes in capital and surplus, and cash flows for the year ended December 31, 2024; and the related notes to the financial statements for the Companies, each prepared on a combined basis for PHL, Concord and Palisado in accordance with accounting practices prescribed or permitted by the Connecticut Insurance Department (the “2024 Combined Financial Statements”). The Rehabilitator believes that the combined financial statements, which eliminate intercompany transactions, provide the most meaningful and accurate presentation of the current financial position and results of operations of the Companies in rehabilitation. Historically, the Companies filed financial statements on a standalone basis. As a result, the 2024 Combined Financial Statements do not include a comparison of results against the prior year.¹

The 2024 Combined Financial Statements reflect that as of December 31, 2024, on a combined basis, the Companies’ approximate capital and surplus remained stable at *negative* \$2.2

¹ In addition to the 2024 Combined Financial Statements, the Companies filed the following financial statements required by the Securities and Exchange Commission in connection with PHL’s SEC-registered variable products: (i) audited 2024 PHL stand-alone financial statements in accordance with accounting practices prescribed or permitted by the Connecticut Insurance Department, and (ii) audited 2024 financial statements in accordance with U.S. generally

billion when compared to the September 30, 2024, financial statements included as Exhibit A to the First Accounting and Status Report.

C. Evaluation and Analysis of the Companies' Investment Assets

As detailed in the First Accounting and Status Report, early in the proceeding the Rehabilitator reconstituted the Companies' Investment Committee ("Investment Committee") with members of the Rehabilitator's team, and the Committee launched a comprehensive evaluation and analysis of the Companies' investments, including portfolio construction, asset class, and risk profiles. That process has now been completed.

Among other things, the Committee created a risk ranking rubric to identify and categorize the Companies' investment assets and suitability of those assets to support the Companies' liabilities and/or facilitate a sale of PHL's business to a buyer. Multiple "deep dive" sessions were held with the Companies' outside investment manager's specialized sector teams to develop an understanding of underlying asset fundamentals, intrinsic risk and intrinsic value, particularly with respect to structured products and more illiquid investments and asset classes. Through this evaluation and analysis, the Committee determined that approximately 70% of PHL's invested assets are in higher quality assets with predictable and stable cash flows. These assets are highly suitable to support PHL's liabilities and are expected to be relatively easily convertible to cash, if necessary, to fund liabilities and/or redeploy into a PHL business buyer's preferred strategic asset allocation. The Investment Committee's strategy is to "hold" these assets for the foreseeable future.

The remaining 30% of invested assets consist of (i) rated debt with scheduled cash flows but more complex and structured asset classes (approximately 19% of total portfolio assets) and (ii) alternative assets and collateralized loan obligations (approximately 11% of total portfolio

accepted accounting principles for the subaccounts of PHL's unitized separate account, which issued variable annuity and life insurance products.

assets). The Committee has explored and is exploring the potential disposition of some of these positions based on executable prices and market conditions. The Committee has and will make informed and disciplined portfolio decisions to maximize and preserve value. Lastly, to ensure sufficient, available liquidity, and given the continued relatively strong yield on cash, all new cash-flow is being invested solely in cash and cash equivalents.

D. Investigation of Third Party Claims

The Rehabilitator has largely completed an initial investigation of claims against third parties. This included an extensive internal document collection, review and analysis process. Document preservation notices were served on persons and organizations that may be in possession, custody or control of documents and information relevant to the pursuit of such claims, and the Rehabilitator expects to serve discovery subpoenas on certain persons and organizations identified as having potentially relevant documents and information within the next thirty days.

Based on the investigation to date, the Rehabilitator has determined that there are viable claims against third parties. These claims seek recovery of funds into the Companies' receivership estate for the benefit of policyholders and creditors. The expected value of such claims, however, is not sufficient to return PHL to solvency. Currently, the Rehabilitator is engaging in preliminary discussions with the relevant third parties to attempt to resolve certain claims prior to filing litigation. The Rehabilitator will file with the Court a motion for approval of any potential resolution or settlement of such claims. If a resolution or settlement is not reached, the Rehabilitator intends to file a lawsuit against such third parties.

II. Update on Status of Rehabilitation Plan

The First Accounting and Status Report stated the Rehabilitator's expectation that he would be in a position to present to the Court the key terms of a rehabilitation plan by mid-2025. That

process is behind where the Rehabilitator expected it to be largely due to delays in commencing the sale process. The Rehabilitator currently anticipates that he will be in a position to present the key terms of a rehabilitation plan in the fourth quarter of 2025.

The Rehabilitator continues to believe that a sale of some or all of PHL's lines of business will provide the best outcome for policyholders. The sales process has launched but it is still at a relatively early stage. The Rehabilitator expects to have expressions of interest from potential buyers in the third quarter of 2025, which will inform the contours of a rehabilitation plan. After receiving that feedback from potential buyers, the Rehabilitator will file a supplement to this Report providing an update.

Based on the actuarial appraisal conducted by the Rehabilitator and his professionals, and an initial outreach to potential interested parties, it is expected that several of PHL's lines of business will draw interest from buyers. These are most likely to include the fixed indexed annuity ("FIA") block, the variable life and annuity business and certain term and whole life business. However, as expected, the non-variable universal life ("UL") insurance block continues to present significant challenges. The UL block is not expected to generate interest from buyers absent material policy restructuring. The Rehabilitator believes, however, that a plan will deliver at least as much value, and likely more, to the UL policies as would be received in liquidation.

Approximately 60% of UL policies have death benefits of \$300,000 or less. This is the limit of coverage provided by the majority of state guaranty associations. Although at this time the Rehabilitator does not expect that guaranty associations will be triggered in connection with these proceedings, in the event that rehabilitation efforts are unsuccessful and the UL block becomes part of a liquidation of PHL, it is expected that death benefits under UL policies with death

benefits of \$300,000 or less would be covered in full (subject to the ongoing payment of premium and conditions imposed by state guaranty association statutes).

III. Anticipated Moratorium Modifications

The Moratorium in this proceeding was put into place to stanch the massive outflow of claims (primarily under the UL policies), which had exceeded \$100 million per quarter since 2022, to prevent preferring nearer term claimants over longer term claimants, stabilize PHL and prevent a “run on the bank” by holders of policies that have investment features and permit surrender of the policy for cash. The Moratorium remains in place while a rehabilitation plan is developed and it is expected that any continuation of the Moratorium will be addressed in the rehabilitation plan.

To date, the Moratorium has been successful in achieving these goals. As reported in the First Accounting and Status Report, the Companies’ held \$233 million in cash and short-term investments as of September 30, 2024. As of March 31, 2025, the Companies reported \$191 million in cash and short-term investments (including \$37 million in reinsurer-specific segregated accounts, as described below in Section IV.C), maintaining a strong liquidity position. The change was the result of continued positive cash flow offset by purchases of high-quality, short duration bonds to increase return.

To provide relief from the restrictions imposed by the Moratorium in the event of financial hardship, the Rehabilitator established a Hardship Program. As detailed below in Section IV.B, policyholders and beneficiaries have received approximately \$5.4 million in benefits through approved hardship payments as of May 15, 2025. Although the Hardship Program remains available to provide relief, the Rehabilitator understands that the Moratorium may present financial strain on certain policyholders. In some instances, policyholders have a need to access funds immediately. In other instances, policyholders are concerned about continuing to pay the full amount of

premiums on a policy when they are uncertain as to the amount of the death benefits that will ultimately be paid.

As a result, the Rehabilitator intends to propose a modification to the Moratorium as described at a high level in the chart below. The Rehabilitator and his team are analyzing the options and the impact of a Moratorium modification on PHL’s liquidity and prospects for rehabilitation. As a result of this analysis, the potential modification may be adjusted or not pursued. The Rehabilitator will provide more specifics regarding a proposed modification in a filing with the Court on or around July 1, 2025, when the analysis is complete. To the extent policyholders will be provided options under a modification of the Moratorium, the Rehabilitator intends that policyholder elections will be retroactive to June 1, 2025.

Policy Type	Expected Treatment	Potential Moratorium Modification
Universal Life	<p>Nearly 60% of universal life policies issued from PHL’s general account have death benefits below \$300,000. The Rehabilitator expects that these policies will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>The Rehabilitator expects that universal life policies with high death benefits will need to be restructured as part of a rehabilitation plan. This would likely entail a reduction in death benefits and a downward adjustment in premium.</p>	<ul style="list-style-type: none"> • Reduction in face amount of death benefits with downward premium adjustment prospectively • Convert policy to a claim for a fixed amount (to be determined based on adjusted surrender value) with no ongoing premium obligation
Legacy Term Life	The Rehabilitator expects the legacy term life insurance block will not be materially impaired under a rehabilitation plan.	No modifications are being considered at this time.

Policy Type	Expected Treatment	Potential Moratorium Modification
Fixed Indexed Annuities	<p>The Rehabilitator anticipates that the FIA block will not be materially impaired as part of a rehabilitation plan. In addition, approximately 95% of FIAs issued from PHL’s separate account have account values below \$250,000, the typical coverage limit under state guaranty association statutes. The majority of assets supporting the FIA block continue to be segregated from PHL’s general account assets and are not subject to the claims of PHL’s general account policyholders and creditors.</p>	<p>The Rehabilitator is analyzing several options to allow FIA holders to access a portion of their funds or activate the income rider associated with the FIA during the Moratorium.</p>
Simplified Issued Term	<p>More than 90% of simplified issue term policies issued from PHL’s general account have death benefits below \$300,000. The Rehabilitator expects that these policies will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>The Rehabilitator expects that policies with death benefit face amounts in excess of \$300,000 may be provided restructuring alternatives as part of a rehabilitation plan or potentially be left unimpaired in a sale of this line of business to a third party.</p>	<p>No modifications are being considered at this time.</p>

Policy Type	Expected Treatment	Potential Moratorium Modification
Whole Life	<p>More than 98% of whole life policies issued from PHL’s general account have death benefits below \$300,000. The Rehabilitator expects that these policies will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>The Rehabilitator expects that policies with death benefit face amounts in excess of \$300,000 may be provided restructuring alternatives as part of a rehabilitation plan or potentially be left unimpaired in a sale of this line of business to a third party.</p>	No modifications are being considered at this time.
Fixed Annuity	<p>Approximately 95% of fixed annuities have account values below \$250,000. The Rehabilitator expects that these annuities will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>The Rehabilitator expects that annuities with account values in excess of \$250,000 may be provided restructuring alternatives as part of a rehabilitation plan or potentially be left unimpaired in a sale of this line of business to a third party.</p>	No modifications are being considered at this time.

Policy Type	Expected Treatment	Potential Moratorium Modification
Payout Annuity	<p>Approximately 95% of payout annuities have account values below \$250,000. The Rehabilitator expects that these annuities will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>The Rehabilitator expects that annuities with account values in excess of \$250,000 may be provided restructuring alternatives as part of a rehabilitation plan or potentially be left unimpaired in a sale of this line of business to a third party.</p>	No modifications are being considered at this time.
Variable Annuity	<p>Amounts invested in PHL's unitized subaccounts are fully available to support the variable annuities issued from PHL's separate account. More than 98% of variable annuities with amounts invested in PHL's general account have account values in the general account of less than \$250,000. The Rehabilitator expects that these annuities will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>The Rehabilitator expects that annuities with account values invested in PHL's general account in excess of \$250,000 may be provided restructuring alternatives as part of a rehabilitation plan or potentially be left unimpaired in a sale of this line of business to a third party.</p>	No modifications are being considered at this time.

Policy Type	Expected Treatment	Potential Moratorium Modification
Variable Universal Life	<p>Amounts invested in PHL’s unitized subaccounts are fully available to support the variable universal life (“<u>VUL</u>”) policies issued from PHL’s separate account. Approximately 60% of VUL policies have death benefits below \$300,000. The Rehabilitator expects that these policies will not be materially impaired if PHL cannot be rehabilitated and is placed into liquidation.</p> <p>VUL policies may be exposed to PHL’s general account through guaranteed minimum death benefit and other riders. VUL policies with death benefits in excess of \$300,000 may be provided restructuring alternatives as part of a rehabilitation plan or potentially be left unimpaired in a sale of this line of business to a third party.</p>	No modifications are being considered at this time.

IV. Recurring and Ongoing Matters

A. Transfer of Proceeding to Complex Litigation Docket, District of Waterbury

The Companies’ rehabilitation proceeding was commenced by the filing of a petition in the Superior Court for the Judicial District of Hartford in accordance with Section 906(e) of the Insurers Rehabilitation and Liquidation Act (the “Act”), Conn. Gen. Stat. §§ 38a-903 to 38a-961. The Act provides that the administrative judge of the Superior Court for the Judicial District of Hartford may appoint a single judge to supervise the rehabilitation and hear any cases or controversies arising out of or related to the rehabilitation. Conn. Gen. Stat. § 38a-915. Judge Daniel Klau was appointed to supervise PHL’s rehabilitation and any related cases. On or around April 9, 2025, Judge Klau was assigned to the Complex Litigation Docket in the Judicial District of Waterbury. Pursuant to Section 915 of the Act, PHL’s rehabilitation proceeding was similarly transferred and now has the case number appearing in the caption of this report.

B. Hardship Program

As described in the First Accounting and Status Report, the Moratorium Order authorized the establishment of a Hardship Program to make payments that exceed the limits under the Moratorium in the event a policyholder or beneficiary demonstrates hardship. The Rehabilitator established a hardship committee to review applications, make recommendations to the Rehabilitator and oversee hardship applicant communications and payments. As of May 15, 2025, approximately 308 applications have been submitted under the Hardship Program. Approximately 139 of those applications received deficiency notices requiring that further information be submitted; 77 were resolved, 55 are awaiting supplemental documentation from the applicant and seven are under review by the hardship committee. The Rehabilitator has authorized 191 payments under the Hardship Program totaling approximately \$5.44 million. There have been seventeen denials (approximately 5% of total applications) and six appeals. Seven of the denials were “technical denials”: instances in which applicants were seeking benefits that were already being paid or were not available under the policy even in the absence of the Moratorium. Three of the appeals resulted in a hardship payment; two are pending receipt of additional information from the applicant; and one is currently under review by the hardship committee.

C. Reinsurance

As described in the First Accounting and Status Report, the Rehabilitator developed an “Override Agreement” as a supplement to each PHL reinsurance agreement. The Override Agreement provides that a reinsurer will pay PHL, on a net basis, for the full insured benefit determined by the Rehabilitator without diminution as a result of the Moratorium. The reinsurance proceeds applicable to some or all of the net unpaid portion of the covered benefits as a result of the Moratorium are placed into reinsurer-specific segregated accounts, which were established at PHL’s

primary bank. Amounts held in the Segregated Account may not be withdrawn by PHL or the reinsurer other than in very limited circumstances involving payments under the Hardship Program. Override Agreements have been executed with all current third-party reinsurers. The Rehabilitator negotiated the terms of the Override Agreement with each reinsurer but the key terms of each agreement are the same for each reinsurer. As of March 31, 2025, amounts placed into the reinsurer-specific segregated accounts totaled \$37 million, including interest, which is included within the cash and short-term investment balance reported in Section III above.

D. Death Claims, Lapses, Withdrawals and Surrenders

For the year ended 2024, the Companies reported net death claims of approximately \$263 million. Average net death claims in all four quarters of 2024, which averaged \$66 million per quarter, were lower than the average net death claims experienced in 2023, which averaged \$107 million per quarter. The third and fourth quarter of 2024 experienced the lowest net death claim amounts since the first quarter of 2023, \$48 million and \$62 million, respectively.

Since entering Rehabilitation, the Companies experienced an elevated number of policy lapses beginning in the third quarter of 2024. Lapses primarily occurred within the UL and term products. The table below provides aggregate lapse data for the UL, variable universal life, whole life and term products:

Period	Indexed Universal Life		Term		Universal Life	
	Policy Count	Face Amount	Policy Count	Face Amount	Policy Count	Face Amount
5/20/24 - 6/30/24	2	\$ 228,500	367	\$ 273,953,407	13	\$ 20,115,619
3Q24	5	\$ 650,820	930	\$ 764,311,006	52	\$ 237,313,825
4Q24	2	\$ 150,000	1,155	\$ 1,138,421,733	55	\$ 148,983,285
1Q25	6	\$ 1,065,000	855	\$ 889,244,160	46	\$ 110,312,652
	15	\$ 2,094,320	3307	\$ 3,065,930,306	166	\$ 516,725,382

Period	Variable Universal Life		Whole Life		Total	
	Policy Count	Face Amount	Policy Count	Face Amount	Policy Count	Face Amount
5/20/24 - 6/30/24	3	\$ 1,250,000	0	\$ -	385	\$ 295,547,526
3Q24	13	\$ 7,749,314	3	\$ 800,000	1003	\$ 1,010,824,965
4Q24	6	\$ 2,873,339	0	\$ -	1218	\$ 1,290,428,357
1Q25	9	\$ 3,630,000	1	\$ 50,000	917	\$ 1,004,301,812
	31	\$ 15,502,653	4	\$ 850,000	3523	\$ 3,601,102,661

Policy surrenders and withdrawals are limited for certain products under the Moratorium. Total surrender and withdrawal activity on variable life and annuity products, which are permitted to the full extent of the Separate Account value attributable to the policy or annuity, increased significantly post-Rehabilitation. Surrenders and withdrawals steadily rose through the third quarter of 2024, peaking at approximately \$146 million for the quarter but declining significantly in the fourth quarter of 2024, for a total of \$401 million during calendar year 2024. Approximately 70% of the surrender and withdrawal activity for the second half of 2024 related to variable annuity products. The Rehabilitator is closely monitoring all lapse, withdrawal and surrender activity, but at this time there is not enough data to reach definitive determinations regarding trends.

E. Claims in Excess of Moratorium Limits

As reported in the 2024 Combined Financial Statements, claims payable for amounts in excess of the Moratorium limits, where claims have already been paid up to the moratorium limit, was \$230 million. As of March 31, 2025, this amount was \$319 million and increased to \$399 million as of April 30, 2025.

F. Litigation; Motions to Intervene

As described in the First Accounting and Status Report, at the time the Companies entered rehabilitation they were parties to a number of lawsuits in federal and state courts throughout the country. The Rehabilitator assessed the status of all pending proceedings, and where appropriate based on the status and merits of the proceedings, sought and obtained stays of the litigation. These proceedings remained stayed.

Two material lawsuits in which PHL is involved are proceeding. First, *PHL Variable Insurance Company and Phoenix Life Insurance Company v. McCarter & English LLP; James G. Scantling, Harris Beach, PLLC; William J. Garry; Leonard Genova; and Frederick Mei*, HHD-X07-CV16-6070473 (Ct. Sup. Ct.), is a professional negligence and breach of contract action against a law firm and lawyer that represented PHL and another entity in certain loan transactions guaranteed by the town of Oyster Bay, New York that were later repudiated by Oyster Bay. PHL seeks recovery of the loan amount with interest and damages. The parties are completing pre-trial motions and discovery, with trial set for June 24, 2025.

Second, on September 20, 2024, Sirius Federal, LLC (“Sirius”) filed suit against the United States Defense Information Systems Agency (“DISA”) for breach of contract and breach of the duty of good faith and fair dealing in connection with a contract to supply certain software licenses. No. 24-cv-01473-CNL (Ct. Fed. Claims). Sirius used financing from PHL and other entities for the acquisition of the software at issue. The lawsuit alleges that DISA failed to meet its contractual obligations to obtain funding before exercising its option to not renew the contract, seeking recovery of over \$15 million. Pursuant to a joint interest and prosecution agreement, PHL would receive a large portion of any recovery. The case is in discovery; a trial date has not yet been set.

Three motions have been filed by parties seeking to intervene in PHL's rehabilitation proceeding. The first was filed by three institutional investors that hold, as investments, multiple insurance policies that insure the lives of individuals unrelated to the investors. The investors sought to intervene in the rehabilitation proceeding to request that the Court permit them to off set premiums on policies they own against death benefits that are due to them under other policies that they own but have not yet been paid due to the Moratorium. The Rehabilitator stipulated to their limited intervention to decide the legal issue of whether this setoff is permitted. The matter was fully briefed by the parties and oral argument was held before Judge Klau on May 16, 2025.

The second motion was filed by two individuals whose lives are insured under life insurance policies owned by their business. These individuals seek to intervene in the proceeding to challenge the Moratorium, arguing that policyholders and beneficiaries should receive payments *pro rata* based on the face amount of their policies. The Rehabilitator opposes the motion on several legal grounds. The motion will be fully briefed on or before May 23, 2025, and the parties will request oral argument before Judge Klau promptly following close of briefing.

The third motion to intervene was filed by a company that owns two life insurance policies, one on the life of an employee and one on the life of a shareholder. The company seeks to intervene to "protect their rights to certain death benefits" and "unique interest in this proceeding." The Rehabilitator opposes their intervention on several legal grounds. The parties have agreed to a briefing schedule, which will conclude on June 6, 2025. Thereafter, the parties will request oral argument before Judge Klau. All court pleadings related to these three motions are available on the PHL case docket, which is linked on the PHL Rehabilitation Website.

G. Default of Affiliate Loan

As described in Section III.A.c. of the First Accounting and Status Report, in 2017 PHL entered into a series of transactions designed as a hedge against PHL's mortality risk. It formed several special purpose vehicles ("SPVs") to enable the acquisition of certain PHL UL policies on the tertiary market. PHL made a secured loan to one of these SPVs to facilitate the purchase of policies, which was classified as an affiliate note on PHL's prior financial statements. Due to unfavorable experience on the policies purchased by the SPV and associated debt service costs on the loan, the loan had been fully impaired as uncollectible in the third quarter of 2024.

In January 2025, following the default and impairment of the affiliate loan, PHL created a new wholly-owned subsidiary, Compass HTH, LLC, to take an assignment of the collateral securing the loan in satisfaction of the outstanding loan obligations.

H. Agents & Commissions

The Rehabilitation Order entered in this proceeding provided for the continued payment of commissions or other compensation to insurance agents, brokers or other entities that sold PHL insurance policies and/or collected premium on behalf of PHL ("Agents") for six months following entry of the Rehabilitation Order. It further provided that at the conclusion of that period, the Rehabilitator would evaluate whether the continued payment of commissions or other compensation to Agents is in the best interest of the Companies and PHL Policyholders. In the First Accounting and Status Report, the Rehabilitator stated his determination that the continued payment of commissions or other compensation to Agents for an additional six-month period was in the best interest of the Companies and PHL policyholders. The Report further stated that at the end

of that period, the Rehabilitator would again evaluate the ongoing payment of commissions or other compensation to Agents.

The Rehabilitator has determined that the continued payment of commissions or other compensation to Agents for an additional six-month period is in the best interest of the Companies and PHL policyholders. The Rehabilitator believes that many of the Agents continue to be engaged with policyholders and will provide meaningful assistance as the proceeding moves forward, including in connection with potential modifications to the Moratorium and a rehabilitation plan. This is supported by evidence from PHL's call center. For example, since the rehabilitation proceeding commenced, approximately 1,850 Agents have contacted the call center from 184 different distributors. These Agents have customers with over 11,000 active PHL policies. The Rehabilitator will again evaluate in six months whether the continued payment of commissions or other compensation to Agents is in the best interest of the Companies and PHL policyholders.

Respectfully submitted,

Andrew N. Mais

Rehabilitator of PHL Variable Insurance
Company, Concord Re, Inc., and Palisado Re, Inc.

EXHIBIT A

2024 Combined Financial Statements

**PHL Variable Insurance Company
and its Subsidiaries, In Rehabilitation**

**PHL Audited Combined Statutory Financial Statements and
Supplemental Schedules
December 31, 2024**

PHL Audited Combined Statutory Financial Statements
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KPMG LLP
Two Financial Center
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Independent Auditors' Report

The Rehabilitator and Special Deputy Rehabilitator
PHL Variable Insurance Company, In Rehabilitation:

Opinions

We have audited the combined financial statements of PHL Variable Insurance Company, In Rehabilitation and subsidiaries (the Company), which comprise the combined statement of admitted assets, liabilities, capital and surplus as of December 31, 2024, and the related combined statements of income (loss) and changes in capital and surplus, and cash flows for the year then ended, and the related notes to the combined financial statements.

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2024, and the results of its operations and its cash flows for the year then ended in accordance with accounting practices prescribed or permitted by the Connecticut Insurance Department described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the combined financial statements do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of the Company as of December 31, 2024, or the results of its operations or its cash flows for the year then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the combined financial statements, the combined financial statements are prepared by the Company using accounting practices prescribed or permitted by the Connecticut Insurance Department, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the combined financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles. The effects on the combined financial statements of the variances between the statutory accounting practices described in Note 2 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material and pervasive.

Substantial Doubt About the Entity's Ability to Continue as a Going Concern



The accompanying combined financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the combined financial statements, the Company has entered rehabilitation proceedings in the Connecticut Superior Court on May 20, 2024, in response to the Company's hazardous financial condition. As discussed in Note 2, the Company has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding this matter are also described in Note 2, including that the ability of the Company to continue as a going concern is dependent on the moratorium enacted as a result of the rehabilitation proceedings and the court approved rehabilitation plan. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting practices prescribed or permitted by the Connecticut Insurance Department. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.



- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary information included in the combining statutory balance sheet as of December 31, 2024, combining statutory statement of income (loss) and changes in capital and surplus for the year ended December 31, 2024, combining statutory statement of cash flows for the year ended December 31, 2024, eliminating entry explanations, schedule of selected financial data, the summary investments schedule, the investment risk interrogatories, and the reinsurance supplemental schedule, is presented for purposes of additional analysis and is not a required part of the combined financial statements but is supplementary information required by the Connecticut Insurance Department. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

/s/ KPMG LLP

Boston, Massachusetts
May 13, 2025

PHL Audited Combined Statutory Financial Statements
Statement of Admitted Assets, Liabilities, Capital and Surplus

(in thousands)

	<u>As of</u> <u>December 31,</u> <u>2024</u>
Admitted assets:	
Bonds	\$ 692,367
Preferred stock	1,086
Common stock	1,692
Contract loans	74,874
Mortgage loans	37,396
Cash, cash equivalents and short-term investments	170,446
Derivatives	948
Receivables for securities	6,512
Other invested assets	123,554
Total cash and invested assets	1,108,875
Deferred and uncollected premium	26,014
Due and accrued investment income	3,846
Receivable from affiliate	5,779
Reinsurance amounts receivable	62,492
Other assets	133,990
Funds held by or deposited with reinsured companies	38
Separate account assets	2,436,013
Total admitted assets	\$ 3,777,047
Liabilities:	
Reserves for future policy benefits	\$ 3,014,947
Policyholders' funds	28,670
Payable to affiliate	7,916
Reinsurance payables	36,786
Net transfers due to (from) separate accounts	50,815
Other liabilities	352,034
Interest maintenance reserve ("IMR")	26
Asset valuation reserve ("AVR")	10,680
Separate account liabilities	2,436,013
Total liabilities	5,937,887
Capital and surplus:	
Common stock, \$5,000 par value (1,000 shares authorized; 500 shares issued and outstanding)	2,500
Paid-in surplus	361,322
Surplus notes	55,000
Unassigned surplus	(2,579,662)
Total capital and surplus	(2,160,840)
Total liabilities, capital and surplus	\$ 3,777,047

The accompanying notes are an integral part of these financial statements.

PHL Audited Combined Statutory Financial Statements
Statement of Income (Loss) and Changes in Capital and Surplus

(in thousands)

	For the year ended December 31, 2024
Income:	
Premium and annuity considerations	\$ 223,521
Net investment income and amortization of IMR	38,308
Separate account net gain (loss) from operations	(100,797)
Commissions and expense allowances on reinsurance ceded	8,552
Reserve adjustments on reinsurance ceded	(147,014)
Fees associated with separate account and other miscellaneous income	64,057
Total income	86,627
Current and future benefits:	
Death and disability benefits	263,434
Annuity benefits and interest on policy funds	48,411
Surrender benefits	401,100
Interest on policy or contract funds	12,898
Payments on supplementary contracts with life contingencies	9,819
Net transfers (from) to separate accounts, net of reinsurance	(485,090)
Change in reserves for future policy benefits	1,287,395
Total current and future benefits	1,537,967
Operating and other expenses:	
Commissions	3,923
Other operating expenses	69,287
Reserve adjustments on MODCO assumed and MODCO consideration	(48,674)
Premium, payroll and miscellaneous taxes	6,512
Total operating and other expenses	31,048
Net gain (loss) from operations before federal income taxes	(1,482,388)
Federal and foreign income tax expense (benefit)	(14,517)
Net income (loss) from operations before realized capital gains (losses)	(1,467,871)
Realized capital gains (losses), net of income taxes and IMR	(66,859)
Net income (loss)	(1,534,730)
Changes in capital and surplus:	
Change in unrealized capital gains (losses), net of tax	3,940
Change in non-admitted assets	(116,179)
Change in asset valuation reserve	1,939
Other surplus changes, net	(14,666)
Correction of prior period errors	(32,600)
Net increase (decrease) in capital and surplus	(1,692,296)
Capital and surplus, beginning of year	(468,544)
Capital and surplus, end of year	\$ (2,160,840)

The accompanying notes are an integral part of these financial statements.

PHL Audited Combined Statutory Financial Statements
Statement of Cash Flows

(in thousands)

	For the year ended December 31, 2024
Cash provided by (used for) operations:	
Premiums and annuity considerations	\$ 222,596
Net investment income	47,545
Other income	(46,070)
Claims and benefits	(677,209)
Commissions and other expenses	3,495
Net transfers from (to) separate accounts	621,157
Federal income taxes recovered (paid)	1,453
Net cash provided by (used for) operations	<u>172,967</u>
Cash provided by (used for) investments:	
Proceeds from sales, maturities and scheduled repayments of bonds	131,232
Proceeds from sales, maturities and scheduled repayments of stocks	2,411
Proceeds from sales, maturities and scheduled repayments of mortgage loans	21,256
Proceeds from sales, maturities and scheduled repayments of other investments	12,153
Cost of bonds acquired	(138,489)
Cost of mortgage loans acquired	(13,792)
Cost of other investments acquired	(30,819)
Net decrease (increase) in contract loans	(2,444)
Net cash provided by (used for) investments	<u>(18,492)</u>
Cash provided by (used for) financing and miscellaneous sources:	
Net deposits (withdrawals) of deposit-type contracts	(13,310)
Other cash provided (applied)	(73,619)
Net cash provided by (used for) financing and miscellaneous uses	<u>(86,929)</u>
Net increase in cash and short-term investments	67,546
Cash and short-term investments, beginning of year	<u>102,900</u>
Cash and short-term investments, end of year	<u>\$ 170,446</u>

The accompanying notes are an integral part of these financial statements.

PHL Audited Combined Statutory Financial Statements

Notes to Statutory Financial Statement

(in thousands except where noted in millions or billions)

1. Description of Business

Pursuant to a request by the Connecticut Insurance Department (the “Department”), PHL Variable Insurance Company, In Rehabilitation (“PHL”) and its subsidiaries, Concord Re, Inc., In Rehabilitation (“Concord”) and Palisado Re, Inc., In Rehabilitation, (“Palisado”) prepared these combined statutory financial statements (collectively referred to as the “PHL Audited Combined Statutory Financial Statements”), for 2024 in lieu of separate annual audited financial statements for each of the companies. Significant intercompany transactions and balances have been eliminated in the combined statutory financial statements.

PHL is a wholly-owned subsidiary of PHL Delaware, LLC (“PHL Delaware” or the “Parent”). PHL is a provider of life insurance and annuity products. PHL’s life insurance products include universal life, variable universal life and other insurance products. PHL has both single-life and multiple-life products. Under multiple-life policies, several lives may be insured with the policy proceeds paid after the death of the first or last insured. PHL’s annuity products include deferred annuities and fixed indexed annuities. Annuity products accumulate for a number of years before periodic payments begin and enable the contract owner to save for retirement and provide options that protect against outliving assets during retirement. PHL’s fixed indexed annuity products include single premium deferred equity indexed annuities and also single premium fixed indexed annuities. In November 2019, PHL stopped marketing and selling new business.

Effective October 1, 2019, PHL entered into a combined coinsurance funds withheld and modified coinsurance agreement (the “Concord Treaty”) that reinsures the total retained risk in PHL to a wholly-owned captive subsidiary, Concord that is licensed in Connecticut. Concord has a 30-year excess-of-loss agreement (the “XOL Agreement”) with Palisado, a subsidiary of PHL with a \$450 million limit of coverage. Because these financial statements have been prepared on a combined basis, the transactions and balances arising from the Concord Treaty and the XOL Agreement have been eliminated.

PHL, Concord, and Palisado (collectively, the “PHL Companies” or the “Company”) entered rehabilitation proceedings in the Connecticut Superior Court (the “Court”) on May 20, 2024, as a result of the PHL Companies’ hazardous financial condition. Rehabilitation is a court proceeding that the insurance commissioner of a company’s state of domicile may initiate to take control of a company if it is in a hazardous financial condition.

The Court appointed the Connecticut Insurance Commissioner as the PHL Companies’ Rehabilitator. The Rehabilitator assumed control of the PHL Companies’ assets and will administer them under the Court’s supervision. The Rehabilitator is also empowered to take the necessary or appropriate actions approved by the Court to rehabilitate the PHL Companies.

Prior to the Rehabilitation, Concord, with the explicit permission of the Commissioner of the Department (the “Commissioner”), was authorized in conjunction with the XOL Agreement, to admit a receivable under the agreement (the “XOL Asset”). Concord was also permitted to not record a deferred tax liability on the XOL Asset. In 2021, the Department authorized Concord the admission of a prepaid expense asset (the “Prepaid Asset”). Palisado had a permitted practice approved by the Department to hold no interest maintenance reserve (“IMR”). All of these permitted practices ceased on May 20, 2024 in conjunction with the Rehabilitation.

2. Summary of Significant Accounting Policies

The significant accounting policies, which are used by the PHL Companies in the preparation of its statutory financial statements, are described below.

Basis of presentation

These financial statements were prepared on the basis of accounting practices (“STAT”) prescribed or permitted by the Department. These practices are predominately promulgated by the National Association of Insurance Commissioners (the “NAIC”).

(in thousands except where noted in millions or billions)

These practices differ from accounting principles generally accepted in the United States of America (“U.S. GAAP”). The Company does not prepare financial statements on a U.S. GAAP basis and, as a result, differences from U.S. GAAP are not readily determinable. The major differences from U.S. GAAP practices are as follows:

- The costs related to acquiring business, principally commissions and certain policy issue expenses are charged to income in the year incurred for STAT and are capitalized as deferred acquisition costs (“DAC”) and then amortized for U.S. GAAP.
- Statutory concepts such as non-admitted assets, asset valuation reserve and interest maintenance reserve are recognized only for STAT.
- Bonds are primarily carried at amortized cost for STAT and at fair value for U.S. GAAP.
- For certain deposit-type contracts in the accumulation stage and for annuity products, deposits are reported as annuity considerations (a revenue item) for statutory reporting, while U.S. GAAP reports these as deposits via the balance sheet.
- Under STAT, for universal life and variable annuity contracts, premiums or deposits are recognized as revenue, and withdrawals are recognized as surrender benefits. Benefits, losses and related expenses are matched with premiums over the related contract periods. For U.S. GAAP, amounts received as payments for universal life, variable universal life and other investment-type contracts are considered deposits and are not included in premiums. Withdrawals taken from these contracts are generally considered returns of policyholder account balances and are not included in surrender benefits for U.S. GAAP.
- Statutory reserves are based on different assumptions than they are under U.S. GAAP.
- Assets and liabilities are reported net of reinsurance balances for STAT and gross for U.S. GAAP.
- The statutory provision for federal income taxes represents estimated amounts currently payable based on taxable income or loss reported in the current accounting period as well as changes in estimates related to prior year taxes. Deferred income taxes are provided in accordance with Statement of Statutory Accounting Principles (“SSAP”) No. 101, *Income Taxes, a Replacement of SSAP No. 10*, and changes in deferred income taxes are recorded through surplus. SSAP No. 101 adopts the U.S. GAAP valuation allowance standard and also limits the recognition of deferred tax assets (“DTAs”) based on certain admissibility criteria. The U.S. GAAP provision would include a provision for taxes currently payable as well as deferred taxes, both of which would be recorded in the income statement. Under SSAP No. 101, in conjunction with SSAP No. 5 as modified to replace the “probable” standard with a “more likely than not” standard, companies must establish a liability related to uncertain tax positions where management determines that it is more likely than not a claimed tax benefit would not be sustained if audited. SSAP No. 101 specifically rejects the corresponding U.S. GAAP guidance. For U.S. GAAP, the Company accounts for income taxes in accordance with Accounting Standards Codification (“ASC”) 740, *Accounting for Income Taxes*. Income tax expense or benefit is recognized based upon amounts reported in the financial statements and the provisions of currently enacted tax laws. Deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting bases for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. Valuation allowances on deferred tax assets are recorded to the extent that management concludes that it is more likely than not that an asset will not be realized. For both STAT and U.S. GAAP, the Company assesses all significant tax positions to determine if a liability for an uncertain tax position is necessary and, if so, the impact on the current or deferred income tax balances.
- For STAT, wholly owned subsidiaries are not consolidated, but subsidiary earnings and losses and other changes in capital and surplus are accounted for as unrealized gains and losses. Dividends received from subsidiaries are treated as investment income. For GAAP, results of wholly owned subsidiaries are consolidated.
- Surplus notes issued by the Company are recognized as surplus for STAT and debt for U.S. GAAP.
- Under STAT, we consider forms of security that are acceptable to the Commissioner under Connecticut General Statutes Section 38a-86(a)(4) to recognize the credit for reinsurance. For GAAP, a reinsurance recoverable would be reported as an asset and assessed for impairment related to the credit risk of the reinsurer.

(in thousands except where noted in millions or billions)

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In applying these estimates and assumptions, management makes subjective and complex judgments that frequently require assumptions about matters that are uncertain and inherently subject to change, such as possibility for elevated mortality rates and market volatility. We regularly review our projections and associated assumptions as part of our ongoing assessment of our business performance and risks. Small changes in assumptions or small deviations of actual experience from assumptions can have, and in the past have had, material impacts on our results of operations and financial condition, and as such, the range of scenarios around these projections is significant. Actual results may differ from those estimates. Significant estimates and assumptions used in determining insurance and contractholder liabilities, income taxes, contingencies and valuation allowances for invested assets are discussed throughout the Notes to Statutory Financial Statements.

Recent accounting pronouncements

In 2023, the NAIC adopted revisions to SSAP No. 26, *Bonds*, and SSAP No. 43, *Loan-Backed and Structured Securities*, to incorporate the principles-based bond definition for use in determining whether an investment (i.e., security) qualifies for reporting as a bond into statutory accounting guidance and to address the accounting treatment for securities that do qualify as bonds. SSAP No. 2, *Cash, Cash Equivalents, Drafts and Short-Term Investments*, was also revised to exclude asset-backed securities from being reported as a cash equivalent or short-term investment. In 2024, the NAIC adopted revisions to SSAP No. 21, *Other Admitted Assets*, to provide guidance for debt securities that do not qualify as bonds under the principles-based definition. The 2024 adopted revisions prescribe accounting guidance (measurement method) for all residual interests regardless of legal form. In 2024, the NAIC also adopted Statutory Issue Paper No. 169, *Principles-Based Bond Definition*, to provide additional guidance. These revisions all have an effective date of January 1, 2025, and the Company is assessing the impact on its financial position and results of operations.

In 2024, the NAIC adopted revisions to SSAP No. 93, *Investments in Tax Credit Structures*, to expand guidance for inclusion of all tax credit investments regardless of structure. SSAP No. 94, *State and Federal Tax Credits*, was also revised to expand and amend guidance to include both purchased and federal tax credits. These revisions have an effective date of January 1, 2025, and the Company is assessing the impact on its financial position and results of operations.

The Company did not adopt any accounting standards during 2024 that had a material impact on these financial statements.

Going concern

As described in Note 1, in response to the PHL Companies' hazardous financial condition, the PHL Companies entered rehabilitation proceedings in the Connecticut Superior Court on May 20, 2024. On June 25, 2024, the Court approved on a final basis a moratorium order that limits payments under some policies and annuities. The moratorium allows the PHL Companies to mitigate the high outflow of claim payments and is anticipated to be in place in some form until a rehabilitation plan is confirmed by the Court. Although the payments have been limited under the moratorium, the Companies have continued to record liabilities for the full amount of policyholder benefits. The claims payable balance for amounts in excess of the moratorium limits, where claims have already been paid up to the moratorium limit, is \$230 million as of December 31, 2024 for the PHL Companies. Additionally, the PHL Companies have recorded a liability for interest on unpaid death claims, as would be required statutorily, of \$8.5 million as of December 31, 2024. Claims payable for amounts in excess of the moratorium limits and the related liability for interest on unpaid death claims are reported within other liabilities, net of reinsurance. The Rehabilitator has evaluated the Company's ability to continue as a going concern and concluded that substantial doubt exists about the Company's ability to continue as a going concern.

The Companies have incurred a net loss of \$1.5 billion for the year ended December 31, 2024, with capital and surplus declining to \$(2.2) billion at December 31, 2024. As of December 31, 2023, PHL's RBC dropped to a mandatory control level and remained there during 2024. In recent years, PHL experienced adverse mortality in its universal life business, which contributed to a significant increase in claims volatility and the PHL Companies' deteriorating financial condition.

(in thousands except where noted in millions or billions)

Although the Rehabilitator has estimated the Company has sufficient liquidity to meet its obligations for the next twelve months, such ability is subject to the moratorium order entered in the rehabilitation proceeding. Based on the significance of these conditions and events, the Rehabilitator concluded that substantial doubt exists about the Company's ability to continue as a going concern. The goal of the rehabilitation proceeding is to develop a rehabilitation plan that maximizes the value of assets and equitably administers the business for the benefit of all policy and annuity holders.

Risks and uncertainties

The Company is exposed to various risks and may face difficult economic conditions that could impact the Company's results of operations, financial condition and liquidity.

Further Receivership Proceedings

As stated in Note 2, the goal of the rehabilitation proceeding is to develop a rehabilitation plan that maximizes the value of assets and equitably administers the business for the benefit of all policy and annuity holders. Depending on the outcome of a rehabilitation plan, there is a risk that some or all of the Company may be liquidated.

Liquidity Challenges

As of year-end 2019, PHL ceased underwriting activities. To mitigate the liquidity challenges posed by large claims and the lack of new revenue, as described in Note 2, on June 25, 2024, the Court approved on a final basis a moratorium order that limits payments under some policies.

Market Factors

Market factors, including interest rates, credit spreads, equity prices, derivative prices and availability, volatility, disruptions and strength of the capital markets, deflation and inflation, and government actions in response thereto could adversely impact results. The Rehabilitator takes measures to mitigate these risks, including the risks associated with investing in a changing interest rate environment. Although rising interest rates are generally positive to the Company's economics, a sharp rise in interest rates, in the absence of other countervailing changes, would result in deterioration in the net unrealized position of the Company's investment portfolio and, if long-term interest rates rise dramatically within a six to twelve-month time period, certain products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the liquidation of assets in an unrealized loss position. The Rehabilitator believes this risk is mitigated by the moratorium approved by the Court on June 25, 2024, which limits surrenders on all non-variable life and annuity products. It is also mitigated to some extent by surrender charge and market value adjustment protection provided by certain products, in particular the Company's fixed indexed annuity and fixed annuity business. Lower interest rates are generally negative to the Company's economics due to lower investment income and increases in asset adequacy reserves.

Correction of errors from prior periods

The Company's December 31, 2024 financial statements reflect the correction of prior period errors related to reserve valuation calculations for certain policies. In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors*, as of January 1, 2024, the Company recorded a \$32.6 million decrease to surplus in the Statements of Income (Loss) and Changes in Capital in Surplus. The Company concluded the effects of these errors were immaterial to previously issued financial statements.

Investments

Investments are recognized in accordance with methods prescribed by the NAIC.

(in thousands except where noted in millions or billions)

Investments in bonds include public and private placement bonds and mortgage-backed securities. Bonds with an NAIC designation of 1-5 are carried at amortized cost using the interest method while those with an NAIC designation of 6 are carried at the lower of amortized cost or fair value. Mortgage-backed and structured securities are assigned an NAIC designation in accordance with SSAP No. 43, *Loan-Backed and Structured Securities*. Amortized cost for mortgage-backed and structured securities is determined using the interest method, utilizing anticipated cash flows based upon prepayment assumptions. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and any resulting adjustment is included in net investment income. Amortization is adjusted for significant changes in estimated cash flows from the original purchase assumptions.

Redeemable preferred stock that has a NAIC designation of 1-3 is stated at amortized cost and those with a designation of 4-6 are carried at the lower of amortized cost or fair value. Mandatory convertible preferred, redeemable or perpetual, and perpetual preferred stocks are carried at the lower of fair value or the current effective call price.

With the exception of the Company's investment in Federal Home Loan Bank ("FHLB") common stock, unaffiliated common stock is carried at fair value. The Company's investment in FHLB common stock is carried at cost, which represents the price at which the FHLB will repurchase the stock.

Short-term investments and cash equivalents are carried at amortized cost. The PHL Companies consider highly liquid investments purchased between ninety days and one year of maturity to be short-term investments and highly liquid investments purchased ninety days or less of maturity to be cash equivalents.

Mortgage loans on real estate are carried at the outstanding principal balance, less any allowances for credit losses.

Contract loans are generally reported at their unpaid balances and are collateralized by the cash values of the related policies.

Other invested assets primarily include limited partnerships, limited liability companies and residual tranches of securitizations. Interests in limited partnerships and limited liability companies are carried at cost adjusted for the Company's equity in undistributed earnings or losses since acquisition, less allowances for other-than-temporary declines in value, based upon audited financial statements in accordance with SSAP No. 48, *Joint Ventures, Partnerships and Limited Liability Companies*. Residual tranches of securitizations are reported at the lower of cost or market. Recognition of net investment income occurs when cash distributions of income are received.

Realized capital gains and losses on investments are determined using the first-in, first-out ("FIFO") method. Those realized capital gains and losses resulting from interest rate changes are deferred and amortized to income over the stated maturity of the disposed investment utilizing the Interest Maintenance Reserve ("IMR") Grouped Method. Unrealized capital gains and losses, resulting from changes in the difference between cost and the carrying value of investments, are reflected in the Statement of Income (Loss) and Changes in Capital and Surplus.

The Company's accounting policy requires that a decline in the value of a bond or equity security below its cost or amortized cost basis be assessed to determine if the decline is other-than-temporary. In addition, for securities expected to be sold, an other-than-temporary impairment ("OTTI") charge is recognized if the Company does not expect the fair value of a security to recover to its cost or amortized cost basis prior to the expected date of sale.

Securities that are in an unrealized loss position are reviewed at least quarterly to determine if an OTTI is present based on certain quantitative and qualitative factors. The primary factors considered in evaluating whether a decline in value for securities not subject to SSAP No. 43 is other-than-temporary include: (a) the length of time and the extent to which the fair value has been less than cost or amortized cost, (b) changes in the financial condition, credit rating and near-term prospects of the issuer, and (c) whether the debtor is current on contractually obligated payments.

For securities that are not subject to SSAP No. 43, if the decline in value of a bond or equity security is other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost or amortized cost basis of the security. Impairment losses are recorded through the IMR.

(in thousands except where noted in millions or billions)

For certain securitized financial assets with contractual cash flows (including asset-backed securities), SSAP No. 43 requires the Company to periodically update its best estimate of cash flows over the life of the security. If management determines that its best estimate of expected future cash flows discounted at the security's effective yield prior to the impairment are less than its amortized cost, then an OTTI charge is recognized equal to the difference between the amortized cost and the Company's best estimate of expected future cash flows discounted at the security's effective yield prior to the impairment. The Company's best estimate of expected future cash flows discounted at the security's effective yield prior to the impairment becomes its new cost basis. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. As a result, actual results may differ from estimates. In addition, if the Company does not have the intent and ability to hold a security subject to the provisions of SSAP No. 43 until the recovery of value, the security is written down to fair value.

Loans are occasionally restructured in a troubled debt restructuring. These restructurings generally include one or more of the following: full or partial payoffs outside of the original contract terms; changes to interest rates; extensions of maturity; or additions or modifications to covenants. When restructurings occur, they are evaluated individually to determine whether the restructuring or modification constitutes a "troubled debt restructuring" as defined by authoritative accounting guidance. In a troubled debt restructuring where the Company receives assets in full or partial satisfaction of the debt, any specific valuation allowance is reversed and a direct write down of the loan is recorded for the amount of the allowance and any additional loss, net of recoveries, or any gain is recorded for the difference between the fair value of the assets received and the recorded investment in the loan. Any remaining loan is evaluated prospectively for impairment. When a loan is restructured in a troubled debt restructuring, the impairment of the loan is remeasured using the modified terms and the loan's original effective yield and the allowance for loss is adjusted accordingly. Subsequent to the modification, income is recognized prospectively based on the modified terms of the loans.

Derivatives

Cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows as either proceeds of other investments or sales of other investments.

Interest Rate Swaps

An interest rate swap is an agreement between two parties to exchange cash flows in the future. Typically, one of the cash flow streams is based on a fixed interest rate set at the inception of the contract, and the other is a floating rate indexed to a reference rate that resets periodically. At the outset of the contract, generally, there is neither an exchange of cash nor a payment of principal by the parties; hence the term "notional principal." At each settlement date, the fixed and floating interest rates times the notional principal determine the cash flows to be exchanged, and the resulting net payment amount between these interest cash flows is made from one party to the other.

In 2024, the Company terminated all interest rate swaps. The Company used interest rate swaps to hedge against market risks in assets or liabilities from substantial changes in interest rates. In an interest rate swap, the Company agrees with another party (referred to as the counterparty) to exchange cash flows at specified intervals for a set length of time, based on the specified notional principal amount.

The Company used interest rate swaps to hedge exposure to changes in interest rates. The Company used interest rate swaps to manage interest rate exposure to certain floating rate available-for-sale debt securities where the terms or expected cash flows of the hedged item closely match the terms or expected cash flows of the swap.

The Company valued qualified hedges at cost and changes in the value of these hedges are reflected directly through net investment income. For interest rate swaps used to hedge the cash flow variability or reinvestment risks associated with asset purchases, the impact was reflected through net investment income as the difference between income between bond coupons and swap payments.

(in thousands except where noted in millions or billions)

The Company had no unrealized gain (loss) for non-qualified hedges representing interest rate swaps as of December 31, 2024.

The Company had no net gain or loss recognized in unrealized gains (losses) during the reporting period resulting from derivatives that no longer qualify for hedge accounting.

The Company had derivatives accounted for as cash flow hedges of forecasted transactions and no derivative contracts with financing premiums.

Equity Index Options

An equity index option gives the option holder the right to buy or sell the equity index at a predetermined price (strike price) at a specified time (maturity) agreed upon at the inception of the contract. An equity index put option affords the holder the right to sell the equity index at a strike price at the maturity date while an equity index call option affords the holder the right to buy the equity index at the strike price.

The Company uses equity index put and call options. The Company is exposed to credit-related losses in the event of nonperformance by a counterparty's failure to meet its obligations. Given the Company enters into derivative contracts with highly rated counterparties, the Company is exposed to minimum credit risk.

The Company uses equity index put options primarily to hedge against market risks or the so-called "vega" Greek risk exposure (referring to the sensitivity of the fair value of assets and liabilities to changes in equity volatility) associated with certain annuity products. The Company uses equity index options in two instances: 1) To hedge against market risks from changes in equity index price associated with certain annuity products; or 2) To replicate the option payoff profile associated with certain equity-linked life and annuity products. The statutory accounting treatment for these options is that they are valued at fair or market value, and changes in the value of these options are reflected directly through surplus.

The unrealized gain (loss) representing equity index options was \$2.0 million as of December 31, 2024.

The Company had no net gain or loss recognized in unrealized gains (losses) during the reporting period resulting from derivatives that no longer qualify for hedge accounting.

The Company had no derivatives accounted for as cash flow hedges of forecasted transactions and no derivative contracts with financing premiums.

Net investment income

Net investment income primarily represents interest and dividends received or accrued on bonds, preferred stock, mortgage loans, cash equivalents and short-term investments. It also includes amortization of any purchase premium or discount using the interest method, adjusted retrospectively for any change in estimated yield-to-maturity. For partnership investments, income is earned when cash distributions of income are received. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made, while investment income greater than 90 days past due is non-admitted and charged directly to surplus. There was \$7.5 million gross due and accrued investment income at December 31, 2024. There was \$3.7 million due and accrued investment income non-admitted at December 31, 2024. There was \$3.8 million net due and accrued investment income at December 31, 2024.

(in thousands except where noted in millions or billions)

Non-admitted assets

In accordance with regulatory requirements, certain assets, including certain receivables, certain deferred tax assets and prepaid expenses, are not allowable and must be charged against surplus and are reported in the Statement of Income (Loss) and Changes in Capital and Surplus. Total non-admitted assets at December 31, 2024 were \$428.5 million. Changes for the year ended December 31, 2024 increased (decreased) surplus by \$(116.2) million.

Separate accounts

Separate account assets and liabilities are funds maintained in accounts to meet specific investment objectives of contractholders who can either choose to bear the full investment risk or can choose guaranteed investment earnings subject to certain conditions.

For contractholders who bear the investment risk, investment income and investment gains and losses accrue directly to such contractholders. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of PHL. The assets and liabilities are carried at fair value in accordance with SSAP No. 56, *Separate Accounts*, except for fixed index annuity contracts. Assets supporting fixed index annuity contracts are accounted for on a general account basis in accordance with Commissioner approval under Connecticut General Statute §38a-433. Net investment income and realized investment gains and losses for these accounts are excluded from revenues, and the related liability increases are excluded from benefits and expenses. Amounts assessed to the contractholders for management services are included in revenues.

Appreciation or depreciation of PHL's interest in the separate accounts, including undistributed net investment income, is reflected in net investment income. Contractholders' interests in net investment income and realized and unrealized capital gains and losses on separate account assets are not reflected in net income.

PHL's separate account products include variable annuities, indexed annuities and variable life insurance contracts. Many of PHL's annuity contracts include various guaranteed minimum death, accumulation, withdrawal and income benefits. The Company currently reinsures a significant portion of the death benefit guarantees associated with its in-force block of business. Reserves for the guaranteed minimum death, accumulation, withdrawal and income benefits are determined in accordance with Actuarial Guideline ("AG") 43 for indexed annuities and Valuation Manual Section 21 ("VM-21") for variable annuities.

For market value adjusted separate accounts, contractholders are credited interest at a guaranteed rate if the account is held until the end of the guarantee period. If funds are withdrawn from the account prior to the end of the guarantee period, a market value adjustment is applied, which means that the funds received may be higher or lower than the account value, depending on whether current interest rates are higher, lower or equal to the guaranteed interest rate. In these separate accounts, appreciation or depreciation of assets, undistributed net investment income and investment or other sundry expenses are reflected as net income or loss in PHL's interest in the separate accounts and transferred to the general account.

Insurance liabilities

Benefit and loss reserves, included in reserves for future policy benefits, are established in amounts adequate to meet estimated future obligations on policies in force. Benefits to policyholders are charged to operations as incurred.

(in thousands except where noted in millions or billions)

Reserves for future policy benefits are determined using assumed rates of interest, mortality and morbidity consistent with statutory requirements. Most life insurance reserves for which the 1980 CSO mortality table is used as the mortality basis are determined using a modified preliminary term reserve method. For certain products issued on or after January 1, 2000, the Company adopted the 20 year select factors in the NAIC Valuation of Life Insurance Policies Model Regulation for both the basic and deficiency reserve, and the Company's X factors for the deficiency reserve. Annuity reserves principally use AG33 and AG35 to calculate reserve balances without guarantees, AG43 to calculate fixed indexed annuity reserve balances with guarantees and VM-21 to calculate variable annuity reserves. AG33 and AG35 use prescribed methods and assumptions to determine the minimum statutory reserves. AG43 requires that reserves for contracts are based on the greater of the Standard Scenario Amount ("SSA") and the Conditional Tail Expectation Amount ("CTE"). VM-21 requires stochastic projections to calculate CTE amounts under company and prescribed assumptions to determine the final reserve. The Company holds reserves greater than those developed under the minimum statutory reserving rules when it is determined that the minimum statutory reserves are inadequate. Actual results could differ from these estimates and may result in the establishment of additional reserves. The Company monitors actual experience and, where circumstances warrant, revises assumptions and the related estimates for policy reserves.

As of December 31, 2024, the Company calculated its reserves for variable annuity products with guaranteed minimum death, accumulation and withdrawal benefits under VM-21. The Company calculates fixed indexed annuity reserves under the SSA of AG43, which exceeded the CTE scenario.

Claim and loss liabilities, included in reserves for future policy benefits, are established in amounts estimated to cover incurred losses. These liabilities are based on individual case estimates for reported losses and estimates of unreported losses based on past experience.

Fees associated with separate accounts and other miscellaneous income

Fees consist of contract charges assessed against the fund values and are recognized when earned.

Premium income and related expenses

Generally, premium income and annuity considerations for fixed payment policies are recognized when due and premium income and annuity considerations for variable payment policies or contracts is recognized as income when paid. Related underwriting expenses, commissions and other costs of acquiring the policies and contracts are charged to operations as incurred.

For deposit-type variable annuity contracts in the accumulation stage, the Company reports deposits as revenues and withdrawals as benefits. This method of reporting applies to deposits and withdrawals for both general account activity and transfers to/from separate accounts.

Stockholder dividends

In Connecticut, without prior approval by the insurance commissioner, the aggregate amount of dividends during any twelve month period shall not exceed the greater of (i) 10% of surplus to policyholders for the preceding calendar year or (ii) net gain from operations for such year. Connecticut law states that no dividend or other distribution exceeding an amount equal to an insurance company's earned surplus may be paid without prior approval of the insurance commissioner. Based on this calculation, the Company has no dividend capacity for 2025.

Reinsurance

PHL utilizes reinsurance agreements to provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks and provide additional capacity for growth. Reinsurance arrangements do not relieve the Company as primary obligor for policyholder liabilities.

(in thousands except where noted in millions or billions)

Assets and liabilities related to reinsurance ceded contracts are reported on a net basis.

Other amounts ceded on the Statement of Income (Loss) and Changes in Capital and Surplus reflect certain adjustments related to separate account income and other initial coinsurance reserve adjustments for contract claims.

Contract claims (other liabilities) arising from the moratorium are ceded to reinsurers, and the direct contract claim payable (and corresponding ceded) increase is included in the reinsurance table within Footnote 4.

Pursuant to the moratorium, the Rehabilitator developed an “Override Agreement” as a supplement to PHL reinsurance agreements with third parties. The Override Agreement provides that a reinsurer will pay PHL, on a net basis, for the full insured benefit without diminution as a result of the moratorium. The reinsurance proceeds are placed into reinsurer-specific, interest-bearing, segregated bank accounts (“Segregated Accounts”). Amounts held in the Segregated Accounts may not be withdrawn by PHL or the reinsurer other than in very limited circumstances involving hardships. As of December 31, 2024, amounts reported within the Segregated Accounts totaled \$23.3 million, including interest.

Income taxes

PHL Delaware is the direct parent of PHL. Effective starting in 2024, PHL and its subsidiaries, Concord and Palisado, joined the PHL Delaware consolidated return that also includes affiliate Magni Re, LTD. Consequently, PHL, Concord, and Palisado, all joined as parties to the PHL Delaware tax allocation agreement effective January 1, 2024. In January 2025, PHL formed Compass HTH (“Compass”), a wholly owned subsidiary treated as a disregarded entity for tax purposes, and Compass joined as party to the tax allocation agreement effective January 1, 2025.

In accordance with the 2024 tax sharing agreement, each subsidiary computes their taxable income on a separate company basis and pays its respective tax liability to PHL Delaware. PHL Delaware will utilize the tax losses and other tax attributes of its subsidiaries to offset consolidated taxable income and recognize the tax savings relating to the utilized net operating losses as a benefit in the effective rate reconciliation. Under the tax sharing agreement, PHL Delaware will pay to PHL in the current year the tax benefit of tax attributes attributable to PHL and/or its subsidiaries that are used to reduce group taxable income. PHL will pay to its subsidiary in any subsequent year the tax benefit relating to the portion of such subsidiary’s tax attribute that reduces such subsidiary’s taxable income on a separate company basis.

Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and their recorded amounts for financial reporting purposes. Deferred tax assets are admitted in accordance with the admissibility test prescribed by SSAP No. 101. The change in deferred tax is recorded as a component of surplus. The Company’s deferred tax assets were subject to a full valuation allowance as of December 31, 2024.

Surplus notes

On December 28, 2018, PHL issued 9.75% surplus notes that are due December 28, 2048 with a face value of \$25.0 million. Interest and principal payments require the prior approval of the Department and may be made only out of surplus funds that the Department determines to be available for such payments under Connecticut insurance law. The interest on the notes is scheduled to be paid on December 28 of each year, commencing December 28, 2019. PHL did not request approval and made no interest payments for these notes in 2024. The 9.75% surplus notes may be redeemed at the option of PHL at any time at the “make-whole” redemption price set forth in the Note Purchase Agreement. Connecticut insurance law provides that the notes are not part of the legal liabilities of PHL. PHL Holdings LLC (“PHL Holdings”), the parent company of PHL Delaware, holds the full balance of the notes.

PHL Audited Combined Statutory Financial Statements
Notes to Statutory Financial Statements

(continued)

(in thousands except where noted in millions or billions)

On December 30, 2013, PHL issued 10.5% surplus notes that are due December 30, 2043 with a face value of \$30.0 million. Interest and principal payments require the prior approval of the Department and may be made only out of surplus funds that the Department determines to be available for such payments under Connecticut insurance law. The interest on the notes is scheduled to be paid on December 30 of each year, commencing December 30, 2014. PHL did not request approval and made no interest payments for these notes in 2024. The 10.5% surplus notes may be redeemed at the option of PHL at any time at the “make-whole” redemption price set forth in the Note Purchase Agreement. Connecticut insurance law provides that the notes are not part of the legal liabilities of PHL. PHL Holdings holds the full balance of the notes.

Below are the details on the outstanding surplus notes (in millions):

Item #	Date Issued	Interest Rate	Original Issue Amount of Note	Note Holder a Related Party (Y/N)	Carrying Value of Notes Prior Year	Carrying Value of Notes Current Year	Unapproved Interest and/or Principal
1000	12/30/2013	10.50%	\$ 30.0	Y	\$ 30.0	\$ 30.0	\$ —
1001	12/28/2018	9.75%	25.0	Y	25.0	25.0	—
Total			\$ 55.0		\$ 55.0	\$ 55.0	\$ —

Item #	Current Year Interest Expense Recognized	Life-to-Date Interest Expense Recognized	Current Year Interest Offset Percentage	Current Year Principal Paid	Life-to-Date Principal Paid	Date of Maturity
1000	\$ —	\$ 15.8	N/A	\$ —	\$ —	12/30/2043
1001	—	—	N/A	—	—	12/28/2048
Total	\$ —	\$ 15.8		\$ —	\$ —	

Item #	Are Surplus Note payments contractually linked (Y/N)	Surplus Note payments subject to administrative offsetting provisions (Y/N)	Were Surplus Note proceeds used to purchase an asset directly from the holder of the surplus (Y/N)	Is Asset Issuer a Related Party (Y/N)	Types of Assets	Principal Amount of Assets Received Upon Issuance	Book/ Adjusted Carrying Value of Assets	Is Liquidity Source a Related Party to the Issuer (Y/N)
1000	N	N	N	N	Cash	\$ 30.0	\$ 30.0	N
1001	N	N	N	N	Cash	25.0	25.0	N
Total						\$ 55.0	\$ 55.0	

The impact of any restatement due to prior quasi-reorganizations is as follows (in millions):

	Change in Surplus	Change in Gross Paid-in and Contributed Surplus
2016	\$ —	\$ (806.3)

(in thousands except where noted in millions or billions)

Surplus

The portion of unassigned surplus increased (reduced) by cumulative unrealized gains (losses) was \$(7.3) million as of December 31, 2024.

Pursuant to SSAP No. 72, *Surplus and Quasi-Reorganizations*, PHL reclassified its negative unassigned surplus balance of \$806.3 million to gross paid-in and contributed surplus as of December 31, 2016, which had the effect of setting the PHL's statutory unassigned surplus to zero as of this date. This change in accounting was approved by the Department.

Non-cash items

The Statement of Cash Flows exclude non-cash items, such as the following:

- Non-cash investment transactions, such as tax-free exchanges;
- Accretion of amortization or accrual of discount for investments;
- Depreciation expense; and
- Modified coinsurance ("MODCO") reinsurance adjustments, including ceded/assumed premium amounts.

The Statement of Cash Flows exclude the following significant non-cash items for the year ended December 31, 2024:

- \$15.0 million of non-cash investment exchanges for the year ended December 31, 2024.

3. Investments

Information pertaining to the Company's investments, net investment income and capital gains and losses on investments follows.

Bonds, common stock and preferred stock

The carrying value and fair value of investments in bonds, common stock and preferred stock as of December 31, 2024 were as follows:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government	\$ 27,493	\$ —	\$ (1,896)	\$ 25,597
All other governments	238	—	(46)	192
Political subdivisions	6,933	3	(1,346)	5,590
Special revenue	12,787	16	(1,459)	11,344
Industrial and miscellaneous (unaffiliated)	473,745	3,970	(53,733)	423,982
Hybrid securities	602	—	(27)	575
Mortgage-backed and asset-backed securities	170,569	797	(18,639)	152,727
Total bonds	\$ 692,367	\$ 4,786	\$ (77,146)	\$ 620,007
Preferred Stock	\$ 1,086	\$ —	\$ —	\$ 1,086
Common Stock	\$ 1,692	\$ —	\$ —	\$ 1,692

(in thousands except where noted in millions or billions)

The gross unrealized capital gains (losses) on bonds, common stock and preferred stock were not reflected in surplus for the year ended December 31, 2024.

The aging of temporarily impaired general account debt securities as of December 31, 2024 was as follows:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities						
U.S. government	\$ 106	\$ (5)	\$ 25,446	\$ (1,891)	\$ 25,552	\$ (1,896)
All other governments	—	—	192	(46)	192	(46)
Political subdivisions	—	—	5,058	(1,346)	5,058	(1,346)
Special revenue	983	(17)	9,814	(1,442)	10,797	(1,459)
Industrial and miscellaneous	155,896	(2,277)	229,293	(51,456)	385,189	(53,733)
Hybrid securities	248	(4)	327	(23)	575	(27)
Mortgage-backed and asset-backed securities	23,387	(740)	90,213	(17,899)	113,600	(18,639)
Total bonds	\$ 180,620	\$ (3,043)	\$ 360,343	\$ (74,103)	\$ 540,963	\$ (77,146)
Number of positions at unrealized loss		194		328		522

There are 15 below investment grade debt securities that have been in an unrealized loss position for greater than 12 months. Below investment grade unrealized losses greater than 12 months are \$3.5 million.

As of December 31, 2024, securities in an unrealized loss position for greater than 12 months consisted of 328 securities. Unrealized losses were not recognized in earnings on these debt securities since the Company neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Additionally, based on a security-by-security analysis, the Company expects to recover the entire amortized cost basis of these securities. In its evaluation of each security, management considered the actual recovery periods for these securities in previous periods of broad market declines. For securities with significant declines, individual security level analysis was performed, which considered any credit enhancements, expectations of defaults on underlying collateral and other available market data, including industry analyst reports and forecasts. Although there may be sustained losses for greater than 12 months on these securities, additional information was obtained related to company performance which did not indicate that the additional losses were other-than-temporary.

The carrying value and fair value of bonds as of December 31, 2024 by maturity are shown below.

	Carrying Value	Fair Value
Due in one year or less	\$ 20,651	\$ 23,547
Due after one year through five years	211,254	200,512
Due after five years through ten years	151,650	148,028
Due after ten years	156,021	135,027
Due after twenty years	152,791	112,893
Total	\$ 692,367	\$ 620,007

(in thousands except where noted in millions or billions)

Corporate bonds are shown based on contractual maturity or contractual sinking fund payments. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties, or the Company may have the right to put or sell the obligations back to the issuers. Mortgage-backed and asset-backed securities (“ABS”) are not due at a single maturity date and therefore are shown based on the expected cash flows of the underlying loans, which includes estimates of anticipated future prepayments.

The carrying values of the Company’s OTTI securities were \$9.4 million as of December 31, 2024. The realized losses on OTTIs for impaired securities were \$44.5 million in 2024.

Internal and external prepayment models, which are widely accepted by the industry, are used in calculating the effective yield used in determining the carrying value of mortgage-backed and asset-backed securities. The retrospective method is applied in determining the prepayment adjustment.

Loan-backed securities

The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date, where historical cash flows are not readily available.

Prepayment assumptions for loan-backed bonds and structured securities were obtained from industry prepayment models or internal estimates. These assumptions are consistent with current interest rates and the economic environment. The retrospective adjustment method is used to value these securities.

As of December 31, 2024, the Company had no OTTI recognized because the present value of cash flows expected to be collected is greater than the amortized cost basis of the securities.

Mortgage loans

The Company invests in mortgage loans that are collateralized by commercial properties, including multi-family residential buildings, which are managed as a single class of commercial mortgage loans. Mortgage loans are stated at original cost, net of principal payments and amortization. The Company segregates its portfolio by property type and geographic location. As of December 31, 2024, the market values of mortgage loans were \$35.5 million. The allowance for loan losses at December 31, 2024 was \$0.2 million.

The following table reflects the distribution of mortgage loans by property type as of December 31:

	<u>2024</u>
Industrial	\$ 1,425
Multifamily	12,353
Office	9,368
Retail	11,145
Self-storage	<u>3,293</u>
Total mortgage loans	37,584
Less: Allowance for loan losses	188
Net mortgage loans	<u>\$ 37,396</u>

(in thousands except where noted in millions or billions)

The following table reflects the distribution of mortgage loans by geographic region as of December 31:

	<u>2024</u>
East North Central	\$ 13,377
Mountain	5,112
Pacific	3,293
South Atlantic	11,546
West South Central	4,256
Total mortgage loans	37,584
Less: Allowance for loan losses	188
Net mortgage loans	<u>\$ 37,396</u>

The following table summarizes the Company's commercial mortgage loan portfolio, net of allowance, loan-to-value ("LTV") ratios and debt-service coverage ("DSC") ratios using available data as of December 31. The ratios are updated as information becomes available.

	<u>December 31, 2024</u>						<u>Total</u>
	<u>DSC Ratios</u>						
	<u>Greater than 2.0x</u>	<u>1.8x to 2.0x</u>	<u>1.5x to 1.8x</u>	<u>1.2x to 1.5x</u>	<u>1.0x to 1.2x</u>	<u>Less than 1.0x</u>	
LTV Ratios							
0% - 50%	\$ 18,796	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 18,796
50% - 60%	4,234	5,822	3,277	—	—	—	13,333
60% - 70%	—	—	—	—	—	—	—
70% - 80%	—	5,267	—	—	—	—	5,267
80% and greater	—	—	—	—	—	—	—
Total	<u>\$ 23,030</u>	<u>\$ 11,089</u>	<u>\$ 3,277</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 37,396</u>

LTV and DSC ratios are measures frequently used in commercial real estate to determine the quality of a mortgage loan. The LTV ratio is a comparison between the current loan balance and the value assigned to the property and is expressed as a percentage. If the LTV is greater than 100%, this would indicate that the loan amount exceeds the value of the property.

The DSC ratio compares the property's net operating income to its mortgage debt service payments. If the DSC ratio is less than 1.0x, this would indicate that the property is not generating enough income after expenses to cover the mortgage payment. Therefore, a higher DSC ratio could indicate a better quality loan.

To monitor credit quality, the Company primarily uses RBC code, which is the risk category used in the RBC calculation that is based on debt service coverage ratio and loan-to-value. The codes range from CM1 to CM7, with CM1 being the most stable. The Company holds \$37.6 million CM1 loans as of December 31, 2024. The maximum percentage of any one loan to the value of the collateral security at the time of the loan, exclusive of insured, guaranteed or purchase money mortgages, acquired during 2024 was 66%. All loans are current as of December 31, 2024.

During 2024, the minimum and maximum lending rates for mortgage loans were 3.5% and 4.7%, respectively. There were no taxes, assessments, or amounts advanced not included in the mortgage loan total. There were no impairments on mortgage loans or any loans derecognized as a result of foreclosure for the year ended December 31, 2024.

(in thousands except where noted in millions or billions)

Other invested assets

Other invested assets as of December 31 are summarized below:

	<u>2024</u>
Private equity	\$ 14,093
Direct equity	7,482
Credit funds	9,225
Collateralized fund obligation	3,776
Other alternative assets	2,587
Mezzanine partnerships	1,077
Mortgage and real estate	44,144
Surplus debentures	748
Residual tranches	40,422
Total other invested assets	<u>\$ 123,554</u>

The Company has unfunded commitments related to its investments in limited partnerships in the amount of \$40.6 million as of December 31, 2024. These unfunded commitments include separate account amounts of \$23.9 million as of December 31, 2024. The Company has no investments in joint ventures, partnerships or limited liability companies that exceed 10% of its admitted assets.

Derivative instruments

Derivative instruments as of December 31 are summarized below:

	<u>2024</u>
Put options:	
Notional amount	\$ 5,934
Fair value	\$ 416
Carrying value	\$ 416
Call options:	
Notional amount	\$ 5,405
Fair value	\$ 532
Carrying value	\$ 532

Offsetting and netting of assets and liabilities

For the year ended December 31, 2024, the Company had net derivative assets of \$0.9 million, which represented \$1.8 million of gross derivative assets offset by \$(0.9) million in derivative liabilities.

(in thousands except where noted in millions or billions)

Restricted assets

Restricted assets (including pledged) relate mainly to statutory requirements of various jurisdictions, FHLB capital stock and derivative collateral pledged to counterparties. Restricted assets were \$3.4 million as of December 31, 2024. These are included as assets on the Statement of Admitted Assets, Liabilities, Capital and Surplus.

PHL is a member of the FHLB of Boston. PHL requested withdrawal from the FHLB which was approved on June 16, 2022 and will be effective on June 16, 2027. PHL has determined the estimated maximum borrowing capacity as \$0. PHL calculated this amount in accordance with Connecticut General Statute §38a-55, *Hypothecation of Assets*, whereby a domestic insurer may not pledge, hypothecate or otherwise encumber its assets to secure its debt in excess of the lesser of 5% of admitted assets or 25% of surplus as reported in its last financial statement filed with the commissioner. PHL owned \$0.8 million of FHLB capital stock as of December 31, 2024 which was not eligible for redemption.

As described in Note 2, pursuant to the moratorium, the Rehabilitator developed an Override Agreement that provides that a reinsurer will pay PHL, on a net basis, for the full insured benefit without diminution as a result of the moratorium, with the reinsurance proceeds placed into Segregated Accounts. As of December 31, 2024, amounts reported within the Segregated Accounts totaled \$23.3 million.

5GI Securities

NAIC 5GI is assigned by an insurance company to certain obligations that meet all of the following criteria: (1) documentation necessary to permit a full credit analysis of a security by the NAIC Securities Valuation Office (“SVO”) does not exist or an NAIC Credit Rating Provider (“CRP”) credit rating for a Filing Exemption (“FE”) or Private Letter (“PL”) security is not available; and (2) the issuer or obligor is current on all contracted interest and principal payments; and (3) the insurer has an actual expectation of ultimate payment of all contracted interest and principal.

5GI securities as of December 31, 2024 are summarized below:

	Number of 5GI Securities	Aggregate BACV*	Aggregate Fair Value
	Current Year	Current Year	Current Year
Investment			
(1) Bonds - Amortized Cost	—	\$ —	\$ —
(2) Loan-backed and structured securities - Amortized Cost	—	—	—
(3) Preferred Stock - Amortized Cost	—	—	—
(4) Preferred Stock - Fair Value	1	658	658
(5) Total (1+2+3+4)	1	\$ 658	\$ 658

**Book Adjusted Carrying Value*

(in thousands except where noted in millions or billions)

Concentration of credit risk of financial instruments

Credit exposure related to issuers and derivatives counterparties is inherent in investments and derivative contracts with positive fair value or asset balances. The Company manages credit risk through the analysis of the underlying obligors, issuers and transaction structures. The Company reviews its debt security portfolio regularly to monitor the performance of obligors and assess the stability of their credit ratings. The Company also manages credit risk through industry and issuer diversification and asset allocation. The Company classifies debt securities into investment grade and below-investment-grade securities based on ratings prescribed by the NAIC. In a majority of cases, these classifications will coincide with ratings assigned by one or more Nationally Recognized Statistical Rating Organizations (“NRSRO”); however, for certain structured securities, the NAIC designations may differ from NRSRO designations based on the amortized cost of the securities in its portfolio. Maximum exposure to an issuer or derivative counterparty is defined by quality ratings, with higher quality issuers having larger exposure limits. As of December 31, 2024, the Company was not exposed to the credit concentration risk of any issuer other than U.S. government and government agencies backed by the faith and credit of the U.S. government, defined as exposure greater than 10% of total admitted assets. The top five largest exposures were NCA Realty Partners, University of Michigan, ALESCO Preferred Funding X, Ltd., AIC Enhanced Loan Fund, LLC and Connecticut Natural Gas. The Company monitors credit exposures by actively monitoring dollar limits on transactions with specific counterparties. The Company has an overall limit on below-investment-grade rated issuer exposure. Additionally, the creditworthiness of counterparties is reviewed periodically. The Company uses ISDA Master Agreements with derivative counterparties. To further mitigate the risk of loss on derivatives, the Company only enters into contracts in which the counterparty is a financial institution with a rating of A or higher from at least one NRSRO.

Net investment income

The principal components of net investment income for the year ended December 31 were as follows:

	<u>2024</u>
Bonds	\$ 26,902
Preferred stock	96
Common stock	101
Mortgage loans	1,972
Contract loans	3,491
Cash and short-term investments	8,037
Other invested assets	7,301
Derivative instruments	(1,832)
Amortization of IMR	241
Less:	
Other investment expenses	8,001
Net investment income	<u>\$ 38,308</u>

For the year ended December 31, 2024, the Company had 0 securities called or redeemed by the issuer, resulting in income from prepayment penalties and acceleration fees of \$0.

(in thousands except where noted in millions or billions)

Capital gains and losses

The principal components of realized gains (losses) and changes in unrealized capital gains (losses) on investments for the year ended December 31 were as follows:

	<u>Realized</u>	<u>Change in</u>
	<u>2024</u>	<u>Unrealized</u>
		<u>2024</u>
Bonds	\$ (11,783)	\$ 222
Preferred stock	(89)	96
Common stock	—	(670)
Short-term investments	141	—
Other invested assets	(34,892)	2,266
Derivative instruments	(5,401)	2,026
Mortgage loans	(318)	—
Income tax benefit (expense)	(14,517)	—
Net capital gains (losses)	\$ (66,859)	\$ 3,940

Realized losses include other-than-temporary impairments of \$44.5 million for the year ended December 31, 2024.

The proceeds and related gross realized gains and losses from sales of stocks and bonds for the year ended December 31 were as follows:

	<u>2024</u>
Proceeds from sales	\$ 136,669
Gross gains on sales	3
Gross losses on sales	(10,983)

4. Reserves for Future Policy Benefits and Reinsurance

The balances for the Company's major categories of reserves for future policy benefits as of December 31 are summarized below:

	<u>2024</u>
Life insurance reserves	\$ 1,684,024
Annuity reserves	545,582
Deficiency reserves	18,772
Various	1,300,000
Total before reinsurance ceded	3,548,378
Less: Reinsurance ceded	533,431
Reserves for future policy benefits	\$ 3,014,947

(in thousands except where noted in millions or billions)

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves.

For a policy on which the substandard extra premiums are based upon a multiple of standard mortality, the substandard extra reserve is based upon the excess of such multiple over standard mortality. For a policy carrying a flat extra premium, the extra reserve is one half of the flat extra premium.

As of December 31, 2024, the Company had \$1.1 billion of life insurance in force for which the gross premiums are less than net premiums according to the standard of valuation set by the Department. Reserves to cover the above insurance totaled \$18.8 million as of December 31, 2024.

Tabular cost has been determined from the basic data for the calculation of policy reserves. Tabular less actual reserves released has been determined from the basic data for the calculation of reserves and reserves released. Tabular interest has been determined from the basic data for the calculation of policy reserves. Prior to this reporting period, Concord and Palisado were exempted from recording asset adequacy reserves (“AAR”) in accordance with Section 38a-53-2 of the Regulations of Connecticut State Agencies (“AOMR Regulation”) pursuant to CGS Sec. 38a-910o. As of December 31, 2023, the AAR for the Company was \$0. However, in September 2024, the CID informed the Company that cash flow testing (“CFT”) will be required effective May 20, 2024, with any additional reserves to be carried by PHL that reflect any deficiency. As of December 31, 2024, the estimate of the Company’s AAR is approximately \$1.3 billion. The estimate is based on the CFT models and methodology employed in the “normal course” of reserve testing plus certain revised actuarial projection assumptions (e.g., lapse, mortality, interest rates), that are based on the Company’s recent experience data and updated interest rate assumptions as developed by the Rehabilitator and its advisors.

Withdrawal characteristics

Absent the moratorium, as described in Note 2, the withdrawal characteristics of annuity actuarial reserves and deposit liabilities as of December 31 were as follows:

	2024				
	General Account	Separate Account with Guarantees	Separate Account Non-guaranteed	Total	% of total
Individual Annuities					
Subject to discretionary withdrawal:					
- with market value adjustment	\$ 25,724	\$ 1,003,071	\$ —	\$ 1,028,795	36 %
- at book value less surrender charge of 5% or more	—	—	—	—	— %
- at market value	—	—	532,251	532,251	19 %
Subtotal	25,724	1,003,071	532,251	1,561,046	55 %
Subject to discretionary withdrawal - without adjustment:					
- at book value (minimal or no charge or adjustment)	143,916	676,520	—	820,436	29 %
- not subject to discretionary withdrawal	430,554	—	16,447	447,001	16 %
Total individual annuity actuarial reserves	600,194	1,679,591	548,698	2,828,483	100 %
Less: Reinsurance ceded	2,818	—	—	2,818	
Total individual annuity actuarial reserves, net of reinsurance	\$ 597,376	\$ 1,679,591	\$ 548,698	\$ 2,825,665	

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(continued)

(in thousands except where noted in millions or billions)

	2024				
	General Account	Separate Account with Guarantees	Separate Account Non-guaranteed	Total	% of total
Deposit-Type Contracts (no life contingencies)					
Subject to discretionary withdrawal:					
- with market value adjustment	\$ —	\$ —	\$ —	\$ —	— %
- at book value less surrender charge of 5% or more	—	—	—	—	— %
- at market value	—	—	792	792	3 %
Subtotal	—	—	792	792	3 %
Subject to discretionary withdrawal - without adjustment:					
- at book value (minimal or no charge or adjustment)	24,808	—	—	24,808	84 %
Not subject to discretionary withdrawal	3,862	—	—	3,862	13 %
Total deposit fund liabilities	28,670	—	792	29,462	100 %
Less: Reinsurance ceded	—	—	—	—	
Total deposit fund liabilities, net of reinsurance	\$ 28,670	\$ —	\$ 792	\$ 29,462	

Absent the moratorium, as described in Note 2, the withdrawal characteristics of life actuarial reserves as of December 31, 2024 were as follows:

	General Account			Separate Account - Non-guaranteed		
	Account Value	General Account Cash Value	Reserve	Account Value	Cash Value	Reserve
Subject to discretionary withdrawal, surrender values or policy loans:						
- Term policies with cash value	\$ 52,827	\$ 52,827	\$ 137,980	\$ —	\$ —	\$ —
- Universal life	448,482	436,411	518,978	—	—	—
- Universal life with secondary guarantees	90,805	88,647	479,664	—	—	—
- Indexed universal life	24,906	24,455	24,599	—	—	—
- Indexed universal life with secondary guarantees	—	—	—	—	—	—
- Indexed life	—	—	—	—	—	—
- Other permanent cash value life insurance	12,405	12,405	17,470	—	—	—
- Variable life	—	—	—	—	—	—
- Variable universal life	23,304	23,254	24,226	121,814	121,824	121,909
- Miscellaneous reserves	—	—	—	—	—	—
Not subject to discretionary withdrawal, with no cash value:						
- Term policies without cash value	XXX	XXX	419,021	XXX	XXX	—
- Accidental death benefits	XXX	XXX	279	XXX	XXX	—
- Disability-active lives	XXX	XXX	2,731	XXX	XXX	—
- Disability-disabled lives	XXX	XXX	4,105	XXX	XXX	—
- Miscellaneous reserves	XXX	XXX	1,318,840	XXX	XXX	—
Total (gross: direct + assumed)	652,729	637,999	2,947,893	121,814	121,824	121,909
Less: Reinsurance ceded	577,898	563,139	530,322	—	—	—
Total, net	\$ 74,831	\$ 74,860	\$ 2,417,571	\$ 121,814	\$ 121,824	\$ 121,909

(in thousands except where noted in millions or billions)

Reinsurance

In addition to the reinsurance agreements between PHL and Concord and Concord and Palisado described in Note 1, the Company's reinsurance program varies by the type of risk. For example:

- On July 18, 2023, Scottish Re (US), Inc. ("SRUS") was ordered into liquidation by the State of Delaware. As a result of the Liquidation Order, all reinsurance agreements in which SRUS was the reinsurer were terminated on September 30, 2023. As a result, management recorded an impairment of \$7.7 million on net claims recoverable from SRUS. As a result of the SRUS termination, the Company recaptured the associated SRUS treaties. The related reserve credit in the amount of \$54.7 million was reduced to \$0, as of the termination date.
- Effective October 1, 2017, PHL entered into an aggregate excess of loss reinsurance agreement with an affiliate reinsurer, Magni Re, to reinsure aggregate losses on certain universal life contracts in excess of the annual attachment points specified in the treaty. PHL entered into the reinsurance treaty to manage surplus volatility associated with the PHL's mortality risk. This treaty was commuted effective January 31, 2025.
- Effective April 1, 2016, PHL entered into a MODCO treaty with affiliate Nassau Re (Cayman) Ltd., to reinsure 50% of the existing inforce business and future sales of PHL's fixed indexed annuity contracts. Under MODCO reinsurance, the assets held for the reinsured policies, and the liabilities associated with the business are retained by PHL, and the economic risks and rewards related to the business will be ceded to Nassau Re (Cayman) Ltd. through MODCO adjustments. Effective July 1, 2017 ("Amendment Date"), the treaty was amended to include reinsurance coverage on new Term business issued on or after the Amendment Date. Effective October 1, 2018, new issues of fixed indexed annuity were no longer reinsured under the treaty.
- Effective June 30, 2015, PHL entered into a MODCO reinsurance agreement with affiliate Nassau Life Insurance Company ("NNY"). This agreement provides that NNY will retrocede, and PHL will reinsure, 80% of the inforce group executive ordinary ("GEO") corporate-owned whole life insurance policies assumed by NNY from a third-party. Under MODCO, the assets, which are equal to the statutory reserves held for the reinsured policies, and liabilities associated with the assumed business are retained by NNY and PHL will receive the economic risks and rewards related to the assumed business through MODCO adjustments. Effective March 31, 2021, PHL entered into a MODCO reinsurance agreement, whereby PHL retroceded and Nassau Life and Annuity Company ("NLA") reinsures 100% of these policies assumed by PHL from NNY. As of the effective date, NLA receives the economic risks and rewards related to the assumed business through MODCO adjustments. PHL received a ceding commission of \$150 million for this reinsurance transaction, which was paid to Concord who reinsures that business under the existing Coinsurance Funds Withheld arrangement.
- For business sold prior to December 31, 2010, PHL's retention limit on any one life is \$10 million for single life and joint first-to-die policies and \$12 million for joint last-to-die policies. Beginning January 1, 2011, PHL's retention limit on new business is \$5 million for single life and joint first-to-die policies and \$6 million for second-to-die policies.
- Effective November 30, 2008, PHL ceded all the benefit risks, net of existing reinsurance, on all the term life business inforce as of December 31, 2008, excluding the term plans introduced in 2008. Effective October 1, 2009, PHL ceded all benefit risks, net of existing reinsurance, on all the remaining term insurance that was not part of the November 30, 2008 transaction.
- Effective September 30, 2008, PHL entered into an agreement with affiliate NNY, to cede 90% of all the benefit risks on Phoenix Accumulator Universal Life III and IV policies sold by PHL from January 1 to December 31, 2008. The reserves ceded to NNY for these policies were \$56.2 million at December 31, 2024.
- On October 8, 2007, PHL entered into a reinsurance agreement, which covers 60% of the base contract for the Phoenix Portfolio Advisors deferred variable annuity. Any riders are not covered.

(in thousands except where noted in millions or billions)

Additional information on direct business written and reinsurance assumed and ceded for the year ended December 31 is set forth below:

	<u>2024</u>
Direct premiums and annuity considerations	\$ 374,184
Reinsurance assumed - non-affiliate	398
Reinsurance assumed - affiliate	4,379
Reinsurance ceded - non-affiliate	(95,100)
Reinsurance ceded - affiliate	(60,340)
Net premiums and annuity considerations	<u>\$ 223,521</u>
Direct commissions and expense allowance	\$ 3,612
Reinsurance assumed - non-affiliate	100
Reinsurance assumed - affiliate	211
Reinsurance ceded - non-affiliate	(522)
Reinsurance ceded - affiliate	(8,030)
Net commissions and expense allowance	<u>\$ (4,629)</u>
Direct policy and contract claims incurred	\$ 512,892
Reinsurance assumed - non-affiliate	1,074
Reinsurance assumed - affiliate	23,310
Reinsurance ceded - non-affiliate	(126,864)
Reinsurance ceded - affiliate	(88,748)
Net policy and contract claims incurred	<u>\$ 321,664</u>
Direct policy and contract claims payable	\$ 378,245
Reinsurance assumed - non-affiliate	102
Reinsurance ceded - non-affiliate	(42,600)
Reinsurance ceded - affiliate	(1,152)
Net policy and contract claims payable	<u>\$ 334,595</u>
Direct life insurance in force	\$ 26,724,133
Reinsurance assumed	1,797,140
Reinsurance ceded	(20,258,104)
Net insurance in force	<u>\$ 8,263,169</u>

(in thousands except where noted in millions or billions)

5. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations as of December 31, 2024 were as follows:

Type of Business	Gross	Net of Loading
Ordinary new	\$ 7	\$ 2
Ordinary renewal	29,412	26,012
Total	\$ 29,419	\$ 26,014

6. Separate Accounts

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and/or transactions. For the current reporting year, the Company reported assets and liabilities from the following product lines/ transactions into a separate account: Variable annuity, fixed indexed annuity and variable universal life. Separate account products are authorized by Connecticut General Statute §38a-433 as discussed in Footnote 2.

Effective July 2018, the Company started accounting for the assets supporting fixed indexed annuity contracts on a general account basis in accordance with Commissioner approval under Connecticut General Statute §38a-433. All remaining separate accounts are accounted for at fair value in accordance with SSAP No. 56.

In accordance with the products/transactions recorded within the separate account, all assets are considered legally insulated from the general account. The legal insulation of the separate account assets prevents such assets from being generally available to satisfy claims resulting from the general account. As of December 31, 2024, the Company's separate account statement included legally insulated assets of \$2,436.0 million.

In accordance with the products/transactions recorded within the separate account, some separate account liabilities are guaranteed by the general account. In accordance with the guarantees provided, if the investment proceeds are insufficient to cover the rate of return guaranteed for the product, the policyholder proceeds will be remitted by the general account.

To compensate the general account for the risk taken, the separate account paid risk charges of \$39.0 million for the year ended December 31, 2024. The general account paid \$4.6 million relating to separate account guarantees for the year ended December 31, 2024.

The Company does not engage in securities lending transactions within the separate accounts.

Surrenders and withdrawals were \$420.9 million for the year ended December 31, 2024 and were reported as benefits in the Statement of Income (Loss) and Changes in Capital and Surplus.

(in thousands except where noted in millions or billions)

The analysis of PHL's separate accounts as of December 31, 2024 was as follows:

	<u>Guaranteed</u>	<u>Non-guaranteed</u>	<u>Total</u>
Premium considerations or deposits for the year ended December 31, 2024	\$ 1,359	\$ 8,238	\$ 9,597
Reserves for account with assets at fair value as of December 31, 2024	\$ 3,590	\$ 671,458	\$ 675,048
Reserves for account with assets at amortized cost as of December 31, 2024	1,676,243	—	1,676,243
Total reserves	\$ 1,679,833	\$ 671,458	\$ 2,351,291
By withdrawal characteristics (absent the moratorium, as described in Note 2):			
Subject to discretionary withdrawal:			
With market value adjustment	\$ 1,672,542	\$ —	\$ 1,672,542
Without market value adjustment and with current surrender charge of 5% or more	—	—	—
At fair value	—	655,011	655,011
At market value without fair value adjustment and with current surrender charge less than 5%	7,291	—	7,291
Not subject to discretionary withdrawal	—	16,447	16,447
Total	\$ 1,679,833	\$ 671,458	\$ 2,351,291

The net transfers to and from the separate accounts, included in annuity deposit funds and net transfers to separate accounts in the Statement of Income (Loss) and Changes in Capital and Surplus at December 31, 2024:

	<u>2024</u>
Transfers to separate accounts	\$ 6,159
Transfers from separate accounts	(491,249)
Net transfers from (to) separate account	(485,090)
Reconciling adjustments:	
MODCO allowance	—
Total adjustments	—
Adjusted transfers from (to) separate accounts	(485,090)
Transfers as reported in the Statement of Income (Loss) and Changes in Capital and Surplus	\$ (485,090)

(in thousands except where noted in millions or billions)

7. Federal Income Taxes

The components of the net deferred tax asset (liability) at period end and the change in those components are as follows:

	December 31, 2024		
	Ordinary	Capital	Total
Gross deferred tax assets	\$ 596,968	\$ 34,085	\$ 631,053
Statutory valuation allowance	590,190	28,765	618,955
Adjusted gross deferred tax assets	6,778	5,320	12,098
Less: Deferred tax assets non-admitted	—	—	—
Subtotal net admitted deferred tax assets	6,778	5,320	12,098
Less: Deferred tax liabilities	6,778	5,320	12,098
Net deferred tax assets	\$ —	\$ —	\$ —

	December 31, 2024		
	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks	\$ —	\$ —	\$ —
Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	—	—	—
1) Adjusted gross deferred tax assets expected to be realized following following the balance sheet date	—	—	—
2) Adjusted gross deferred tax assets allowed per limitation threshold	XXX	XXX	(324,126)
Adjusted gross deferred tax assets offset by gross deferred tax liabilities	6,778	5,320	12,098
Deferred tax assets admitted as the result of application of SSAP No. 101	\$ 6,778	\$ 5,320	\$ 12,098

	2024
Ratio percentage used to determine recovery period and threshold limitation amount	— %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ (2,160,840)

	December 31, 2024	
	Ordinary	Capital
Impact of tax planning strategies		
Adjusted gross DTAs	\$ 6,778	\$ 5,320
% of total adjusted gross DTAs	— %	— %
Net admitted adjusted DTAs	\$ 6,778	\$ 5,320
% of total net admitted adjusted gross DTAs	— %	— %

Management believes that there is insufficient positive evidence to support that it is more likely than not that the Company will realize the full tax benefits associated with its deferred tax assets and, consequently, it has recorded a full valuation allowance for statutory accounting purposes.

(in thousands except where noted in millions or billions)

Regarding deferred tax liabilities that are not recognized, the Company has no temporary differences for which deferred tax liabilities have not been established.

The components of current income taxes incurred in the Statement of Income (Loss) and Changes in Capital and Surplus and the net deferred tax asset (liability) recognized in the Company's Statement of Admitted Assets, Liabilities, Capital and Surplus at December 31, 2024 were as follows:

	<u>2024</u>
Current income tax:	
Federal	\$ (14,517)
Subtotal	(14,517)
Federal income tax on net capital gains (losses)	14,517
Federal and foreign income tax expense (benefit) incurred	\$ —
 Deferred tax assets:	
Ordinary:	
Future policyholder benefits	\$ 292,352
Investments	8,776
Deferred acquisition costs	41,372
Net operating loss carryforward	251,185
Non-admitted assets	2,412
Other (including items <5% of total ordinary tax assets)	871
Subtotal	596,968
Statutory valuation allowance adjustment	590,190
Non-admitted	—
Admitted ordinary deferred tax assets	\$ 6,778
 Capital:	
Investments	\$ 33,834
Net capital loss carryforward	\$ 251
Other (including items <5% of total ordinary tax assets)	—
Subtotal	34,085
Non-admitted	—
Statutory valuation allowance	28,765
Admitted capital deferred tax assets	5,320
Admitted deferred tax assets	\$ 12,098

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(in thousands except where noted in millions or billions)

	<u>2024</u>
Deferred tax liabilities:	
Ordinary:	
Investments	\$ 4,171
Policyholder reserves	2,607
Intercompany payable	—
Other (including items <5% of total ordinary tax liabilities)	—
Subtotal	<u>6,778</u>
Capital:	
Investments	5,320
Deferred tax liabilities	<u>12,098</u>
Net admitted deferred tax assets (liabilities)	<u>\$ —</u>

Reconciliation of federal income tax rate to actual effective rate:

	<u>December 31, 2024</u>		
	<u>Amount</u>	<u>Tax Effect</u>	<u>Effective Tax Rate</u>
Income (loss) before taxes	\$ (1,534,731)	\$ (322,294)	21.0%
Interest maintenance reserve	(24,566)	(5,159)	0.3%
Dividends received deduction	(1,228)	(258)	—%
Tax sharing agreement (“TSA”) relief	(282,820)	(59,392)	3.9%
Return to provision	401	84	—%
Change in non-admitted assets	304	64	—%
Reverse STAT ordinary interest maintenance reserve	36	8	—%
Reverse STAT capital gain interest maintenance reserve	(62)	(13)	—%
Prior period adjustment	2,292	481	—%
Change in valuation allowance	1,844,451	387,335	(25.2%)
Ceding allowance	—	—	—%
Other	(4,077)	(856)	—%
Total statutory income tax	<u>\$ —</u>	<u>\$ —</u>	<u>—%</u>
Federal income taxes incurred		\$ (14,563)	0.9%
Tax on capital gains (losses)		14,517	(0.9%)
Prior year overaccrual (underaccrual)		46	—%
Total statutory income tax		<u>\$ —</u>	<u>—%</u>

(in thousands except where noted in millions or billions)

Carryforwards, recoverable taxes and IRC 6603 deposits:

	<u>2024</u>
The Company had net operating loss carryforwards of	\$ 1,196,117
The Company had capital loss carryforwards of	1,194

As of December 31, 2024, the Company has a net operating loss carryforward of \$1.2 billion and capital loss carryforwards of \$1.2 million, respectively. The balance of the Company's net operating losses is not subject to expiration.

There is no income tax expense for 2024 that is available for recoupment in the event of future net capital losses.

There was no aggregate amount of deposits reported as admitted assets under Section 6603 of the Internal Revenue Code as of December 31, 2024.

The Company's U.S. federal income tax return for years 2021 and after may be selected for review by tax authorities. The Company does not anticipate any material assessments or adjustments to the Company's liability resulting from the tax examinations of prior open year periods.

Uncertain tax positions are assessed under the applicable statutory accounting guidance. There were no unrecognized tax benefits relating to uncertain tax positions for the year ended December 31, 2024. As of December 31, 2024, the Company has recognized no amount for interest or penalties related to uncertain tax positions. Based upon existing information, the Company does not expect a material change in the recognized liability in the next 12 months. The Company has no tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

PHL Delaware is the direct parent of PHL. Effective starting in 2024, PHL and its subsidiaries Concord and Palisado joined the PHL Delaware consolidated return that also includes affiliate Magni Re, LTD. Consequently, PHL, Concord, and Palisado, all joined as parties to the PHL Delaware tax allocation agreement effective January 1, 2024. In January 2025, PHL formed Compass, a wholly owned subsidiary treated as a disregarded entity for tax purposes, and Compass joined as party to the tax allocation agreement effective for January 1, 2025.

In accordance with the 2024 tax sharing agreement, each subsidiary computes their taxable income on a separate company basis and pays its respective tax liability to PHL Delaware. PHL Delaware will utilize the tax losses and other tax attributes of its subsidiaries to offset consolidated taxable income and recognize the tax savings relating to the utilized net operating losses as a benefit in the effective rate reconciliation. Under the tax sharing agreement, PHL Delaware will pay to PHL in the current year the tax benefit of tax attributes attributable to PHL and/or its subsidiaries that are used to reduce group taxable income. PHL will pay to its subsidiary in any subsequent year the tax benefit relating to the portion of such subsidiary's tax attribute that reduces such subsidiary's taxable income on a separate company basis.

Prior to 2024, PHL was ineligible to join the life/non-life consolidated return as it did not satisfy the five-year waiting period for life insurance companies to join non-life groups under Treas. Reg. 1.1502-47. In accordance with the PHL intercompany tax sharing agreement, each subsidiary computes their taxable income on a separate company basis and pays its respective tax liability to PHL. PHL will utilize the losses of its subsidiaries to offset consolidated taxable income and recognize the tax savings relating to the utilized net operating losses as a benefit in the effective rate reconciliation. Under the PHL tax sharing agreement, a subsidiary's tax losses are maintained on a separate company basis and carryforward to reduce such subsidiary's taxable income in future periods.

(in thousands except where noted in millions or billions)

The Tax Cuts and Jobs Act provides a base erosion and anti-abuse tax (“BEAT”) which represents minimum tax calculated on a base equal to the taxpayer’s taxable income determined without regard to: (1) the tax benefits arising from base erosion payments, and (2) the applicable base erosion percentage of any NOL allowed for the tax year. The BEAT rate is 10% for tax years beginning in 2019 through 2025 and 12.5% for tax years beginning after December 31, 2025. The Company is a member of an “Aggregate Group” within the meaning of the IRC and the Aggregate Group’s base erosion payments are less than 3% of the Aggregate Group’s total deductions for the year ended December 31, 2024. Accordingly, the BEAT liability was \$0 for the year ended December 31, 2024.

On August 16, 2022, President Biden signed into law the Inflation Reduction Act (the “Act”). Effective for tax years beginning after December 31, 2022, the Act includes a new corporate alternative minimum tax (“CAMT”) on certain corporations. The Company has determined, as of the reporting date, that they are not subject to the CAMT in 2024.

8. Related Party Transactions

The Nassau Companies of New York (“NCNY”), an affiliate, provides services and facilities to the Company that are reimbursed through an administrative services agreement. Expenses determined under the agreement were \$55.9 million for the year ended December 31, 2024. The amounts payable to NCNY were \$2.8 million as of December 31, 2024.

1851 Securities Inc., a wholly owned subsidiary of NSRE BD Holdco LLC, an affiliate, is the principal underwriter of the PHL’s variable universal life insurance policies and variable annuity contracts. Commissions paid by NNY on PHL’s behalf were \$2.1 million for the year ended December 31, 2024. There were no amounts payable as of December 31, 2024.

NNY pays commissions to producers who sold PHL’s non-registered life and annuity products. PHL reimbursed NNY for commissions paid on PHL’s behalf of \$3.4 million for the year ended December 31, 2024. Commission amounts payable to NNY were \$0.2 million as of December 31, 2024.

The Company’s affiliate, Nassau Asset Management LLC (“NAMCO”) provides investment and related advisory services through an Investment Management Agreement. Expenses incurred under this agreement were \$7.4 million for the year ended December 31, 2024. There were no amounts due to NAMCO as of December 31, 2024.

The general accounts of the Company has investments in various classes of notes of Nassau 2017-I Ltd., Nassau 2018-I Ltd., Nassau 2018-II Ltd., Nassau 2019-II Ltd., Nassau 2020-I Ltd., Nassau 2022-I Ltd., Nassau Euro CLO II DAC and NCC US 2023-1 WH (the “Nassau CLOs”) totaling \$67.8 million par with a fair value of \$45.6 million at December 31, 2024. The separate accounts of the Company has investments in various classes of notes of Nassau 2017-I Ltd., Nassau 2017-II LTD., Nassau 2018-I Ltd., Nassau 2018-II Ltd., Nassau 2019-I Ltd., Nassau 2020-I Ltd., Nassau 2020-II Ltd., Nassau 2021-I Ltd., Nassau Euro CLO I DAC and Nassau Euro CLO III DAC (the “Nassau CLOs”) totaling \$121.3 million par with a fair value of \$57.0 million at December 31, 2024. The Nassau CLOs are managed by NGC CLO Manager, LLC and NGC UK LLP, affiliates of PHL.

In September 2019, the Company invested cash and available-for-sale debt securities in Nassau 2019 CFO, LLC (“Nassau CFO”), a collateralized fund obligation managed by an affiliate. The Company’s equity investment in Nassau CFO was \$9.7 million at December 31, 2024. The Company recorded net investment income from equity investments in Nassau CFO of \$0 for the year ended December 31, 2024. The Company also invested in Class B Notes issued by Nassau CFO, which have a par value of \$7.2 million and a fair value of \$6.5 million at December 31, 2024, and the Company recognized \$0.7 million of net investment income for the year ended December 31, 2024.

In July 2019, the Company committed \$10 million to Nassau Private Credit Onshore Fund LP. In April 2021, the Company made an additional commitment of \$10 million. In June 2022, the Company made an additional commitment of \$6.0 million. The Company's investment in Nassau Private Credit Onshore Fund LP has a fair value of \$20.8 million and a remaining commitment of \$10.7 million as of December 31, 2024.

(in thousands except where noted in millions or billions)

In September 2022, the Company sold certain of its limited partnership and other invested assets to Nassau CFO 2022, a collateralized fund obligation managed by an affiliate. The Company received cash, Class C Notes, and Subordinated Notes issued by Nassau CFO 2022 as consideration with no gain or loss recognized on the sale. The Company's investment in Class C Notes issued by Nassau CFO 2022 have a par of \$9.5 million and fair value of \$9.5 million. The Company's investment in Subordinated Notes issued by Nassau CFO 2022 have a par of \$52.8 million and fair value of \$59.4 million.

See Note 4 for additional information on reinsurance agreements with affiliates.

PHL had no loans receivable from related parties at December 31, 2024. During 2024, secured loans to a related party, DSM Sands, were fully impaired in 2024 as the borrower is no longer expected to have sufficient liquidity to repay the loans. The amount of the impairment charge for the loan was \$34 million. The loans had semi-annual principal payments that began in 2022 with the final principal payment due in 2037 and charge interest at 8.5%. Interest income included other miscellaneous income for the general account for these loans was \$1.5 million for the year ended December 31, 2024 in the Statement of Income (Loss) and Changes in Capital and Surplus. The loans were carried at amortized cost in the general account and presented as other assets on the Statement of Admitted Assets, Liabilities, Capital and Surplus. The Company also made a loan from its separate account to the same related party. This loan was also fully impaired in 2024, resulting in an impairment charge of \$115 million. This loan was carried at amortized cost in the separate account and had a balance of \$0 as of December 31, 2024. Interest income included in the separate account for this loan was \$5.0 million for the year ended December 31, 2024.

9. Fair Value Disclosures of Financial Instruments

The fair value of an asset is the amount at which that asset could be bought or sold in a current arms-length transaction. Included in several investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stock when carried at the lower of cost or market. The fair values presented for certain financial instruments are estimates which, in many cases, may differ significantly from the amounts which could be realized upon immediate liquidation. In cases where market prices are not available, estimates of fair value are based on discounted cash flow analyses, which utilize current interest rates for similar financial instruments, which have comparable terms and credit quality.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Bonds and preferred stock

The Company uses pricing vendors to estimate fair value for the majority of its public bonds and preferred stocks. The pricing vendors' estimates are based on market data and use pricing models that vary by asset class and incorporate available trade, bid and other market information. When pricing vendors are unable to obtain evaluations based on market data, fair value is determined by obtaining a direct broker quote or by using an internal model. For the majority of private bonds and preferred stock, fair value is determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spreads derived from public bond indices summed with a liquidity premium and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. When the discounted cash flow model is not appropriate, the Company uses third party broker quotes or other internally developed values. Short-term investments include securities with a maturity of one year or less but greater than three months at the time of purchase and are stated at estimated fair value or amortized cost, which approximates estimated fair value.

Common stock

Fair values are based on quoted market prices, where available. If a quoted market price is not available, fair values are estimated using independent pricing sources or internally developed pricing models.

(in thousands except where noted in millions or billions)

Cash, cash equivalents, and short-term investments

The carrying amounts reported in the accompanying Statement of Admitted Assets, Liabilities, Capital and Surplus for these financial instruments approximate their fair values.

Derivatives

Fair values for over-the-counter (“OTC”), centrally cleared and exchange-traded derivative financial instruments, principally forwards, options and swaps, represent the present value of amounts estimated to be received from or paid to a marketplace participant in settlement of these instruments (i.e., the amount the Company would expect to receive in a derivative asset assignment or would expect to pay to have a derivative liability assumed). When pricing is not directly from counterparty’s valuation, then derivatives are valued using pricing models based on the net present value of estimated future cash flows and directly observed prices from exchange-traded derivatives or other OTC trades, while taking into account the counterparty’s credit ratings, or the Company’s own credit ratings, as appropriate. Determining the fair value for OTC derivative contracts can require a significant level of estimation and management judgment.

New and/or complex instruments may have immature or limited markets. As a result, the pricing models used for valuation often incorporate significant estimates and assumptions that market participants would use in pricing the instrument, which may impact the results of operations reported in the financial statements. For long-dated and illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. This enables the Company to mark-to-market all positions consistently when only a subset of prices are directly observable. Values for OTC derivatives are verified using observed information about the costs of hedging the risk and other trades in the market. As the markets for these products develop, the Company will continually refine its pricing models to correlate more closely to the market risk of these instruments.

Residual tranches, surplus debentures and certified capital companies (“capcos”)

Fair values for residual tranches, surplus debentures and capcos are based on quoted market prices, where available, or quoted market prices of comparable instruments. If a quoted market price is not available, fair values are estimated using independent pricing sources or internally developed pricing models.

Mortgage loans

The Company’s mortgage loans on real estate are all commercial mortgage loans, which are reported at amortized cost, less impairment write-downs and allowance for loan losses. Loans are considered impaired when it is probable that, based upon current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. When the Company determines that a loan is impaired, a valuation allowance is established for the excess carrying value of the loan over its estimated collateral value.

Investment contracts

PHL determines the fair value of deferred annuities with an interest guarantee of one year or less at the amount of the policy reserve. In determining the fair value of deferred annuities with interest guarantees greater than one year, the Company uses a discount rate equal to the appropriate U.S. Treasury rate plus 100 basis points to determine the present value of the projected account value of the policy at the end of the current guarantee period.

(in thousands except where noted in millions or billions)

Financial assets and liabilities measured at fair value

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, *Fair Value*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

- *Level 1* – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 1 securities include highly liquid government bonds and exchange-traded equities.
- *Level 2* – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Examples of such instruments include government-backed mortgage products, certain collateralized mortgage and debt obligations and certain high-yield debt securities.
- *Level 3* – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect management's own assumptions about inputs in which market participants would use in pricing these types of assets or liabilities. Level 3 financial instruments include values which are determined using pricing models and third-party evaluation. Additionally, the determination of some fair value estimates utilizes significant management judgments or best estimates.

The following table provides information as of December 31, 2024 about the Company's financial assets and liabilities measured and reported at fair value on a recurring basis.

	2024			
	Level 1	Level 2	Level 3	Total
Assets at fair value:				
Bonds	\$ —	\$ —	\$ 7,585	\$ 7,585
Preferred stock	—	428	658	1,086
Common stock [1]	—	—	1,692	1,692
Subtotal	—	428	9,935	10,363
Derivative assets	—	1,814	—	1,814
Other invested assets	—	11,114	79	11,193
Separate account assets	779,873	55,731	66,099	901,703
Total assets at fair value	\$ 779,873	\$ 69,087	\$ 76,113	\$ 925,073
Liabilities at fair value:				
Derivative liabilities	\$ —	\$ 866	\$ —	\$ 866
Total liabilities at fair value	\$ —	\$ 866	\$ —	\$ 866

[1] Includes \$767 Membership FHLB common stock.

Fair values and changes in the fair values of separate account assets generally accrue directly to the policyholders and are not included in the Company's revenues and expenses or surplus.

(in thousands except where noted in millions or billions)

Changes in Level 3 Assets and Liabilities Measured at Fair Value

The following table summarizes the changes in assets and liabilities classified in Level 3. Gains and losses reported in this table may include changes in fair value that are attributable to both observable and unobservable inputs.

	<u>2024</u>
Level 3 Assets:	
Balance, beginning of period	\$ 83,513
Sales	(4,448)
Transfers into level 3	4,064
Transfers out of level 3	(6,000)
Realized losses	(9,169)
Unrealized gains (losses)	8,153
Balance, end of period	\$ 76,113

Transfers into Level 3 primarily represent private securities for which Level 2 input assumptions for valuation pricing were no longer available. Transfers out of Level 3 for the year ended December 31, 2024 were due to the increased market observability of similar assets and/or securities previously being held at fair value now being carried at amortized cost.

For Level 3, inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect management's best estimate of what hypothetical market participants would use to determine fair value. Examples of valuation techniques used based on unobservable inputs include, but are not limited to, internal models, direct broker quotes and professional judgment.

Below is a listing of the aggregate fair value for all financial instruments as of December 31, 2024 and the level within the fair value hierarchy:

	<u>Aggregate Fair Value</u>	<u>Admitted Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Not Practicable (Carrying Value)</u>
Financial Instruments:						
Bonds	\$ 620,007	\$ 692,367	\$ —	\$ 376,488	\$ 243,519	\$ —
Preferred stock	1,086	1,086	—	428	658	—
Common stock	1,692	1,692	—	—	1,692	—
Residual tranches & surplus debentures	45,078	41,583	—	44,999	79	—
Cash, cash equivalents & short-term investments	170,434	170,446	142,689	26,747	998	—
Derivatives	948	948	—	948	—	—
Mortgage loans	35,484	37,396	—	—	35,484	—
Separate account assets	2,161,762	2,291,523	779,873	690,336	691,553	—
Total financial instruments	\$ 3,036,491	\$ 3,237,041	\$ 922,562	\$ 1,139,946	\$ 973,983	\$ —

As of December 31, 2024, the Company had no investments where it is not practicable to estimate fair value.

For the year ended December 31, 2024, Level 3 bonds and separate account assets were primarily private placement debt securities priced using the Company's internal discounted cash flow model. Market spreads used in the model were unobservable. Nearly all of these securities were in the Industrial and Miscellaneous category.

(in thousands except where noted in millions or billions)

10. Commitments and Contingencies

Litigation and regulatory matters

The Company is regularly involved in litigation and arbitration, both as a defendant and as a plaintiff. The litigation and arbitration naming the Company as a defendant ordinarily involves the Company's businesses and operations. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages.

The Company periodically receives informal and formal requests for information from various state and federal governmental agencies and self-regulatory organizations related to the Company's products and practices. It is the Company's practice to cooperate fully in these matters.

As reported in Note 1, in response to the PHL Companies' hazardous financial condition, the PHL Companies entered rehabilitation proceedings in the Connecticut Superior Court on May 20, 2024. At the time of the Rehabilitator Order, the Companies were parties to a number of lawsuits in federal and state courts throughout the country. The Rehabilitator assessed the status of all pending proceedings, and where appropriate based on the status and merits of the proceedings, stayed the proceedings pursuant to the Rehabilitation Order.

It is not feasible to predict or determine the ultimate outcome of all litigation, arbitration or regulatory proceedings or to provide reasonable ranges of potential losses. Given the Company's current financial condition as more fully described in Note 2, and the large or indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation, arbitration and regulatory investigations, it is possible that an adverse outcome in certain matters could, from time to time, have a material adverse effect on the results of operations or cash flows in particular annual periods.

Cost of insurance litigation related to the 2021 adjustment

On April 15, 2022, a putative class action was filed against PHL Variable Insurance Company in the United States District Court for the District of Connecticut challenging certain increases to cost of insurance charges implemented by PHL in 2021. *Kenney v. PHL Variable Insurance Company*, 3:22-cv-00552. On June 21, 2022, PHL filed its answer. On February 14, 2024, an amended class action complaint was filed in the *Kenney* case. The amended complaint adds a new plaintiff, Arbuckle Funding LLC, as well as nine new defendants including two subsidiaries of PHL, Concord Re, Inc. and Palisado Re, Inc., as well as seven Nassau entities, including Nassau Insurance Group Holdings, L.P.; Nassau Insurance Group Holdings GP, LLC; Nassau Financial Group GP Ltd.; Nassau Financial Group, L.P.; Nassau Asset Management LLC; The Nassau Companies of New York; and The Nassau Companies. The amended complaint retains its breach of contract cause of action against PHL challenging the cost of insurance charges implemented in 2021 and adds the Nassau defendants to the breach of contract cause of action under an "alter ego" theory. The amended class action complaint also alleges a new cause of action for fraudulent transfer against all defendants and a new cause of action against the Nassau entities for interference with contract. Pursuant to the rehabilitation proceedings, this matter has been stayed. The Company disputes the allegations in the complaint and intends a vigorous defense.

11. Other Commitments

As part of its normal investment activities, the Company enters into agreements to fund limited partnerships that make debt and equity investments. As of December 31, 2024, the Company had unfunded commitments of \$40.6 million, which includes \$23.9 million relating to separate account commitments.

12. Information about Financial Instruments with Off-Balance Sheet Risk

The Company uses derivative instruments including interest rate swaps and equity index options. A more detailed description of these instruments is provided in Footnote 2 - "Summary of Significant Accounting Policies."

(in thousands except where noted in millions or billions)

The Company is not exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments as the interest rate swaps are fully collateralized. The credit exposure of interest rate swaps is represented by the fair value (market value) of contracts with a positive fair value (market value) at the reporting date. As a result of the Company entering rehabilitation, the counterparty terminated all interest rate swaps. The termination resulted in a loss of \$18.4 million.

The Company is required to put up collateral for any interest rate swap contracts that are entered. The amount of collateral that is required is determined by the exchange on which it is traded. As of December 31, 2024, the Company had posted \$0 of collateral.

The current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date. Credit risk is managed with derivative counterparties – mostly highly rated counterparties rated A+ or higher. The Company also attempts to minimize its exposure to credit risk through the use of issuer limits and various credit monitoring techniques. As of December 31, 2024, the Company held \$0 of collateral pledged by third parties related to over-the-counter derivative transactions.

13. Subsequent Events

The Company evaluated events subsequent to December 31, 2024 and through May 13, 2024, the date of issuance of these financial statements. There were no events occurring subsequent to the end of the year that merited recognition or disclosure in these financial statements.

PHL Audited Combined Statutory Financial Statements
Combining Statutory Balance Sheet as of December 31, 2024

Supplemental Schedule

(in thousands)

	<u>PHL</u>	<u>Concord</u>	<u>Palisado</u>	<u>Eliminations</u>	<u>Total</u>
Admitted assets:					
Bonds	\$ 653,176	\$ 2,501	\$ 36,690	\$ —	\$ 692,367
Preferred stock	1,086	—	—	—	1,086
Common stock	1,692	—	—	—	1,692
Contract loans	74,874	—	—	—	74,874
Mortgage loans	23,771	—	13,625	—	37,396
Cash, cash equivalents and short-term investments	121,121	2,699	46,626	—	170,446
Derivatives	948	—	—	—	948
Receivables for securities	6,512	—	—	—	6,512
Other invested assets	111,669	—	11,885	—	123,554
Total cash and invested assets	994,849	5,200	108,826	—	1,108,875
Deferred and uncollected premium	5,420	20,594	—	—	26,014
Due and accrued investment income	3,211	3	632	—	3,846
Receivable from affiliate	13,599	2,615	—	10,435 [a]	5,779
Reinsurance amounts receivable	62,492	—	1,125	1,125 [b]	62,492
Other assets	132,747	1,243	—	—	133,990
Funds held by or deposited with reinsured companies	—	806,344	—	806,306 [c]	38
Separate account assets	2,436,013	—	—	—	2,436,013
Total admitted assets	\$ 3,648,331	\$ 835,999	\$ 110,583	\$ 817,866	\$ 3,777,047
Liabilities:					
Reserves for future policy benefits	\$ 2,540,373	\$ 1,426,886	\$ 238,335	\$ 1,190,647 [d]	\$ 3,014,947
Policyholders' funds	—	28,670	—	—	28,670
Payable to affiliate	7,880	10,443	28	10,435 [a]	7,916
Funds held under coinsurance	806,306	—	—	806,306 [c]	—
Reinsurance payables	36,786	1,125	—	1,125 [b]	36,786
Net transfers due to (from) separate accounts	50,815	—	—	—	50,815
Other liabilities	28,260	323,694	80	—	352,034
Interest maintenance reserve ("IMR")	—	—	26	—	26
Asset valuation reserve ("AVR")	9,081	—	1,599	—	10,680
Separate account liabilities	2,436,013	—	—	—	2,436,013
Total liabilities	5,915,514	1,790,818	240,068	2,008,513	5,937,887
Capital and surplus:					
Common stock, \$5,000 par value (1,000 shares authorized; 500 shares issued and outstanding)	2,500	—	—	—	2,500
Paid-in surplus	283,333	47,739	30,250	—	361,322
Surplus notes	55,000	—	—	—	55,000
Unassigned surplus	(2,608,016)	(1,002,558)	(159,735)	(1,190,647) [e]	(2,579,662)
Total capital and surplus	(2,267,183)	(954,819)	(129,485)	(1,190,647)	(2,160,840)
Total liabilities, capital and surplus	\$ 3,648,331	\$ 835,999	\$ 110,583	\$ 817,866	\$ 3,777,047

See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Combining Statutory Statement of Income (Loss) and
Changes in Capital and Surplus for the year ended December 31, 2024

Supplemental Schedule

(in thousands)

	<u>PHL</u>	<u>Concord</u>	<u>Palisado</u>	<u>Eliminations</u>	<u>Total</u>
Income:					
Premium and annuity considerations	\$ —	\$ 218,055	\$ 5,466	\$ —	\$ 223,521
Net investment income and amortization of IMR	32,923	\$ 100	\$ 5,285	\$ —	\$ 38,308
Separate account net gain (loss) from operations	(100,797)	—	—	—	(100,797)
Commissions and expense allowances on reinsurance ceded	26,435	—	—	17,883 [f]	8,552
Reserve adjustments on reinsurance ceded	(147,014)	—	—	—	(147,014)
Fees associated with separate account and other miscellaneous income	55,130	315,967	—	307,040 [g]	64,057
Total income	(133,323)	534,122	10,751	324,923	86,627
Current and future benefits:					
Death and disability benefits	—	263,434	—	—	263,434
Annuity benefits and interest on policy funds	—	48,411	—	—	48,411
Surrender benefits	—	401,100	—	—	401,100
Interest on policy or contract funds	—	12,898	—	—	12,898
Payments on supplementary contracts with life contingencies	—	9,819	—	—	9,819
Net transfers (from) to separate accounts, net of reinsurance	(485,090)	—	—	—	(485,090)
Change in reserves for future policy benefits	2,093,888	(30,365)	124,210	900,338 [d]	1,287,395
Total current and future benefits	1,608,798	705,297	124,210	900,338	1,537,967
Operating and other expenses:					
Commissions	3,924	17,883	(5,466)	12,418 [f]	3,923
Other operating expenses	19,188	49,984	115	—	69,287
Reserve adjustments on MODCO assumed and MODCO consideration	(48,674)	—	—	—	(48,674)
Other amounts ceded	307,040	—	—	307,040 [g]	—
Premium, payroll and miscellaneous taxes	5,536	971	5	—	6,512
Total operating and other expenses	287,014	68,838	(5,346)	319,458	31,048
Net gain (loss) from operations before federal income taxes	(2,029,135)	(240,013)	(108,113)	(894,873)	(1,482,388)
Federal and foreign income tax expense (benefit)	(14,517)	—	—	—	(14,517)
Net income (loss) from operations before realized capital gains (losses)	(2,014,618)	(240,013)	(108,113)	(894,873)	(1,467,871)
Realized capital gains (losses), net of income taxes and IMR	(66,807)	—	(52)	—	(66,859)
Net income (loss)	(2,081,425)	(240,013)	(108,165)	(894,873)	(1,534,730)
Changes in capital and surplus:					
Change in unrealized capital gains (losses), net of tax	2,326	—	1,614	—	3,940
Change in non-admitted assets	(9,513)	(407,346)	—	(300,680) [h]	(116,179)
Change in asset valuation reserve	3,482	—	(1,543)	—	1,939
Change in reinsurance allowances	—	—	(5,466)	(5,466) [f]	—
Change in XOL receivable	—	(133,394)	—	(133,394) [h]	—
Other surplus changes, net	(14,666)	—	—	—	(14,666)
Net increase (decrease) in capital and surplus	(2,132,396)	(780,753)	(113,560)	(1,334,413)	(1,692,296)
Capital and surplus, beginning of year	(134,787)	(174,065)	(15,927)	143,765	(468,544)
Capital and surplus, end of year	\$ (2,267,183)	\$ (954,818)	\$ (129,487)	\$ (1,190,648)	\$ (2,160,840)

See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Combining Statutory Statement of Cash Flows
for the year ended December 31, 2024

Supplemental Schedule

(in thousands)

	<u>PHL</u>	<u>Concord</u>	<u>Palisado</u>	<u>Eliminations</u>	<u>Total</u>
Cash provided by (used for) operations:					
Premiums and annuity considerations	\$ 222,596	\$ (6,591)	\$ 6,591	\$ —	\$ 222,596
Net investment income	42,421	100	5,024	—	47,545
Other income	(28,187)	—	—	17,883 [f]	(46,070)
Claims and benefits	(677,209)	—	—	—	(677,209)
Commissions and other expenses	23,646	(25,558)	(59)	(5,466) [f]	3,495
Net transfers from (to) separate accounts	621,157	—	—	—	621,157
Federal income taxes recovered (paid)	1,453	—	—	—	1,453
Net cash provided by (used for) operations	205,877	(32,049)	11,556	12,417	172,967
Cash provided by (used for) investments:					
Proceeds from sales, maturities and scheduled repayments of bonds	128,780	—	2,452	—	131,232
Proceeds from sales, maturities and scheduled repayments of stocks	2,411	—	—	—	2,411
Proceeds from sales, maturities and scheduled repayments of mortgage loans	20,954	—	302	—	21,256
Proceeds from sales, maturities and scheduled repayments of other investments	12,060	—	93	—	12,153
Cost of bonds acquired	(125,292)	—	(13,197)	—	(138,489)
Cost of mortgage loans acquired	—	—	(13,792)	—	(13,792)
Cost of other investments acquired	(28,322)	—	(2,497)	—	(30,819)
Net decrease (increase) in contract loans	(2,444)	—	—	—	(2,444)
Net cash provided by (used for) investments	8,147	—	(26,639)	—	(18,492)
Cash provided by (used for) financing and miscellaneous sources:					
Net deposits (withdrawals) of deposit-type contracts	(13,310)	—	—	—	(13,310)
Other cash provided (applied)	(118,232)	32,164	32	(12,417) [f]	(73,619)
Net cash provided by (used for) financing and miscellaneous uses	(131,542)	32,164	32	(12,417)	(86,929)
Net decrease in cash and short-term investments	82,482	115	(15,051)	—	67,546
Cash and short-term investments, beginning of year	38,639	2,584	61,677	—	102,900
Cash and short-term investments, end of year	\$ 121,121	\$ 2,699	\$ 46,626	\$ —	\$ 170,446

See accompanying independent auditors' report.

(in thousands)

Explanation:

- [a] Netting of intercompany receivables and payables between affiliates included in the Company
- [b] Netting of intercompany reinsurance receivable and payable between affiliates included in the Company
- [c] Elimination of intercompany funds withheld asset and liability under reinsurance between affiliates included in the Company
- [d] Elimination of intercompany assumed and ceded reserves between affiliates included in the Company
- [e] Elimination of statutory equity of subsidiary insurance affiliates included in the Company
- [f] Elimination of intercompany reinsurance commissions and expense allowances between affiliates included in the Company
- [g] Elimination of intercompany reinsurance fees, interest on funds withheld, separate account activity, and other miscellaneous funds withheld settlements between affiliates included in the Company
- [h] Elimination of intercompany XOL asset between affiliates included in the Company

See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Annual Statement as of and for the year ended December 31, 2024
Schedule of Selected Financial Data

Supplemental Schedule

(in thousands)

Investment income earned:

U. S. government bonds	\$ 1,196
Other bonds (unaffiliated)	25,706
Preferred stocks (unaffiliated)	96
Common stocks (unaffiliated)	101
Contract loans	3,491
Mortgage loans	1,972
Cash, cash equivalents and short-term investments	8,037
Derivative instruments	(1,832)
Other invested assets	7,300
Miscellaneous investment income	1
Gross investment income	\$ 46,068

Other invested assets – carrying value

	\$ 123,554
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Common stock, including stocks of parents, subsidiaries and affiliates

	\$ 1,692
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Bonds and short-term investments including cash equivalents, by maturity and class:

Bonds by actual maturity - carrying value:

Due within one year or less	\$ 47,649
Over 1 year through 5 years	211,254
Over 5 years through 10 years	151,650
Over 10 years through 20 years	156,021
Over 20 years	152,791
Total by maturity	\$ 719,365

Bonds and short-term investments by class – carrying value:

Class 1	\$ 555,307
Class 2	139,245
Class 3	7,406
Class 4	8,405
Class 5	4,692
Class 6	4,310
Total by class	\$ 719,365

Total bonds publicly traded	\$ 315,814
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Total bonds privately placed	403,551
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Total by public/private	\$ 719,365
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Preferred stock – carrying value	\$ 1,086
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Common stock – market value	\$ 1,692
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See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Annual Statement as of and for the year ended December 31, 2024
Schedule of Selected Financial Data

Supplemental Schedule (continued)

(in thousands)

Cash on deposit	\$ 143,448
Life insurance in force, net of reinsurance ceded:	
Ordinary	\$ 8,263,169
Group life	\$ —
Amount of accidental death insurance in force under ordinary policies	\$ 238,103
Life insurance policies with disability provisions in force, net of reinsurance ceded:	
Ordinary	\$ 2,349,920
Supplementary contracts in force:	
Ordinary – not involving life contingencies:	
Amount on deposit	\$ 21,640
Income payable	\$ 5,486
Ordinary – involving life contingencies:	
Income payable	\$ 7,231
Annuities - ordinary	
Immediate – amount of income payable	\$ 2,560

See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Annual Statement as of and for the year ended December 31, 2024
Summary Investment Schedule

Supplemental Schedule

(in thousands)

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Investment Categories				
Bonds:				
U.S. governments	\$ 40,176	3.6 %	\$ 40,176	3.6 %
All other governments	238	— %	238	— %
U.S. political subdivisions of states, territories and possessions, guaranteed	6,933	0.6 %	6,933	0.6 %
U.S. special revenue and special assessment obligations, etc., non-guaranteed	14,396	1.3 %	14,396	1.3 %
Industrial and miscellaneous	630,022	56.3 %	630,022	56.8 %
Hybrid securities	602	0.1 %	602	0.1 %
Total long-term bonds	692,367	61.9 %	692,367	62.4 %
Preferred stocks:				
Industrial and miscellaneous (unaffiliated)	1,086	0.1 %	1,086	0.1 %
Total preferred stock	1,086	0.1 %	1,086	0.1 %
Common stocks:				
Industrial and miscellaneous other (unaffiliated)	1,692	0.2 %	1,692	0.2 %
Total common stocks	1,692	0.2 %	1,692	0.2 %
Mortgage loans:				
Commercial loans	37,584	3.4 %	37,584	3.4 %
Total valuation allowance	(188)	— %	(188)	— %
Total mortgage loans	37,396	3.4 %	37,396	3.4 %
Cash, cash equivalents and short-term investments:				
Cash	142,689	12.8 %	142,689	12.9 %
Cash equivalents	759	0.1 %	759	0.1 %
Short-term investments	26,998	2.4 %	26,998	2.4 %
Total cash, cash equivalents and short-term investments	170,446	15.3 %	170,446	15.4 %
Contract loans	74,874	6.7 %	74,874	6.8 %
Derivatives	948	0.1 %	948	0.1 %
Other invested assets	133,371	11.7 %	123,554	11.0 %
Receivables for securities	6,512	0.6 %	6,512	0.6 %
Total invested assets	\$ 1,118,692	100.0 %	\$ 1,108,875	100.0 %

See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Annual Statement as of and for the year ended December 31, 2024
Investment Risk Interrogatories

Supplemental Schedule

(in thousands)

1. State the reporting entity's total admitted assets as reported on Page 3 of these statements (excluding Separate Account assets). \$1,341,034
2. State by investment category the 10 largest exposures to a single/issuer/borrower/investment, excluding U.S. government, U.S. government agency securities and those U.S. government money market funds listed in the Appendix to the SVO Purposes and Procedures Manual as exempt, property occupied by the Company and policy loans.

Investment Category	Amount	Percentage of Total Admitted Assets
NCA Realty Partners	\$ 44,144	3.3%
Nassau 2022-I Ltd	\$ 14,679	1.1%
UNIVERSITY MICHIGAN	\$ 14,515	1.1%
NASSAU EURO CLO II DESIGNATED ACTIVITY COMPANY	\$ 14,365	1.1%
ALESCO Preferred Funding X, Ltd.	\$ 10,000	0.7%
AIC ENHANCED LOAN FUND, LLC	\$ 9,225	0.7%
CONNECTICUT NATURAL GAS	\$ 8,000	0.6%
STONE POINT CAPITAL LLC	\$ 7,760	0.6%
Bank 2019-BNK19	\$ 7,600	0.6%
THORTONS INC	\$ 7,117	0.5%

3. State the amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stock by NAIC rating.

Bonds	Amount	Percentage
NAIC-1	\$ 555,307	41.4%
NAIC-2	\$ 139,245	10.4%
NAIC-3	\$ 7,406	0.6%
NAIC-4	\$ 8,405	0.6%
NAIC-5	\$ 4,692	0.3%
NAIC-6	\$ 4,310	0.3%

Preferred Stock	Amount	Percentage
NAIC P/RP-1	\$ —	—%
NAIC P/RP-2	\$ 178	—%
NAIC P/RP-3	\$ 250	—%
NAIC P/RP-4	\$ —	—%
NAIC P/RP-5	\$ 658	—%
NAIC P/RP-6	\$ —	—%

See accompanying independent auditors' report.

PHL Audited Combined Statutory Financial Statements
Annual Statement as of and for the year ended December 31, 2024
Investment Risk Interrogatories

Supplemental Schedule (continued)

(in thousands)

4. Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?

(a) Yes [] No [X]

	<u>Amount</u>	<u>Percentage</u>
(b) Total admitted assets held in foreign investments	\$ 131,025	9.8%

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

	<u>Amount</u>	<u>Percentage</u>
Countries rated NAIC-1	\$ 129,086	9.6%
Countries rated NAIC-2	\$ 1,000	0.1%
Countries rated NAIC-3 or below	\$ 938	0.1%

6. Two largest foreign investment exposures to a single country, categorized by NAIC sovereign rating:

	<u>Amount</u>	<u>Percentage</u>
Countries rated NAIC-1:		
Cayman Islands	\$ 50,235	3.7%
Jersey	\$ 16,679	1.2%
Countries rated NAIC-2:		
Italy	\$ 1,000	0.1%
Not applicable	\$ —	—%
Countries rated NAIC-3 or below:		
Virgin Islands, British	\$ 700	0.1%
Supranational	\$ 238	—%

7. Aggregate unhedged currency exposure:

	<u>Amount</u>	<u>Percentage</u>
	\$ 14,366	1.1%

See accompanying independent auditors' report.

(in thousands)

8. Aggregate unhedged foreign currency categorized by NAIC sovereign designation:

	<u>Amount</u>	<u>Percentage</u>
Countries rated NAIC-1	\$ 14,366	1.1%
Countries rated NAIC-2	\$ —	—%
Countries rated NAIC-3 or below	\$ —	—%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

	<u>Amount</u>	<u>Percentage</u>
Countries rated NAIC-1:		
Ireland	\$ 14,365	1.1%
European Union	\$ 1	—%
Countries rated NAIC-2:		
Country 1: Not applicable	\$ —	—%
Country 2: Not applicable	\$ —	—%
Countries rated NAIC-3 or below:		
Country 1: Not applicable	\$ —	—%
Country 2: Not applicable	\$ —	—%

10. List the 10 largest non-sovereign (i. e. non-governmental) foreign issues:

<u>Issuer / NAIC Rating</u>	<u>Amount</u>	<u>Percentage</u>
Nassau 2022-I Ltd	\$ 14,679	1.1%
NASSAU EURO CLO II DESIGNATED ACTIVITY COMPANY	\$ 14,365	1.1%
Nassau 2020-I Ltd.	\$ 5,896	0.4%
Nassau 2019-II Ltd	\$ 5,455	0.4%
Octagon Investment Partners 27, Ltd.	\$ 5,000	0.4%
Atlas Senior Loan Fund XIV Ltd.	\$ 4,246	0.3%
Octagon 61 Ltd	\$ 3,423	0.3%
Octagon Investment Partners 43 Ltd.	\$ 3,223	0.2%
Venture 36 CLO Limited	\$ 3,110	0.2%
Romark Clo - I Ltd.	\$ 3,070	0.2%

11. Not applicable

See accompanying independent auditors' report.

(in thousands)

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

(a) Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?

Yes No

13. State the aggregate amounts and percentages of admitted assets held in the largest 10 equity interests.

(a) Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets?

Yes No

(b) Ten largest equity interests:

Investment Category	Amount	Percentage
NCA Realty Partners	\$ 44,144	3.3%
AIC ENHANCED LOAN FUND, LLC	\$ 9,225	0.7%
STONE POINT CAPITAL LLC	\$ 7,760	0.6%
Gridiron GP V, LLC	\$ 6,316	0.5%
NASSAU CFO FUND	\$ 3,776	0.3%
Leargas Fund III LP	\$ 2,587	0.2%
Jet Parts (Vance Street) Co-Invest	\$ 2,584	0.2%
COP GUARDIAN INVESTMENT LLC	\$ 2,159	0.2%
LEP PCS Co-Invest LP	\$ 1,808	0.1%
MAKENA REAL ESTATE FUND II	\$ 1,077	0.1%

14. Amounts and percentages of the reporting entity's total admitted assets held in non-affiliated, privately placed equities.

(a) Are assets held in non-affiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes No

(b) Aggregate statement value of investments held in non-affiliated, privately placed equities \$406,238

Largest three investments in general non-affiliated, privately placed equities:

Investment Category	Amount	Percentage
UNIVERSITY OF MICHIGAN	\$ 14,515	1.1%
ALESC X A2B	\$ 10,000	0.7%
CONNECTICUT NATURAL GAS CORPORATION	\$ 8,000	0.6%

See accompanying independent auditors' report.

(in thousands)

15. State the amounts and percentages of the reporting entity's total admitted assets held in general partnership interests.

(a) Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

(a) Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [] No [X]

	<u>Amount</u>	<u>Percentage</u>
Commercial Type	\$ 37,464	2.8%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

<u>Loan to Value</u>	<u>Commercial</u>	
Above 95%	\$ —	— %
91% to 95%	\$ —	— %
81% to 90%	\$ —	— %
71% to 80%	\$ 5,267	— %
Below 70%	\$ 32,129	2 %

18-21. Not applicable.

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps and forwards:

	<u>At year ended 2024</u>		<u>At end of each quarter</u>		
			<u>Unaudited 2024</u>		
	<u>Amount</u>	<u>Percentage</u>	<u>1st Qtr Amount</u>	<u>2nd Qtr Amount</u>	<u>3rd Qtr Amount</u>
Other	\$ —	—%	\$ 3,295	\$ —	\$ —

23. Not applicable.

See accompanying independent auditors' report.

(in thousands)

- (1). Disclose any reinsurance contracts subject to A-791 that includes a provision, which limits the reinsurer's assumption of significant risks identified as in A-791.

None.

- (2). Disclose any reinsurance contracts not subject to A-791, for which reinsurance accounting was applied and includes a provision that limits the reinsurer's assumptions of risk.

None.

- (3). Disclose if any reinsurance contracts contain features which result in delays in payment in form or in fact.

None.

- (4). Disclose if the reporting entity has reflected reinsurance accounting credit for any contracts not subject to A-791 and not yearly renewal term, which meet the risk transfer requirements of SSAP No. 61 and identify the type of contracts and the reinsurance contracts.

None.

- (5). Disclose if the reporting entity ceded any risk which is not subject to A-791 and not yearly renewable term insurance, under any reinsurance contract during the period covered by the financial statement and either: a. Accounted for that contract as reinsurance under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP:

None.

- (6). If affirmative disclosure is required for Paragraph (5) above, explain why the contract(s) is treated differently under GAAP and SAP.

Not applicable.

See accompanying independent auditors' report.