

Guardian Life Insurance Co. Of America And Guardian Insurance & Annuity Co.

Major Rating Factors

Strengths:

- Very strong competitive position supported by one of the industry's most productive captive-agent distribution systems.
- Extremely strong capitalization and liquidity.
- Strong operating performance.

Weaknesses:

- Difficult competitive environment.
- Challenge to increase captive-agent recruiting and maintain its productivity.

Rationale

The insurer financial strength ratings on Guardian Life Insurance Co. of America and Guardian Insurance & Annuity Co. (collectively, Guardian) reflect the company's very strong competitive position, stable earnings, extremely strong capital adequacy, and strong investment portfolio. Guardian's highly productive general agent system, enhanced by very strong agent retention levels, bolsters its competitive position and its leadership in individual life and disability insurance (DI). The company also offers group products, and its very strong position in group dental makes it a top provider in that segment. In addition, Guardian offers wealth accumulation products through its retirement operating business segment and holds a solid position in mutual funds and annuities, which it continues to bolster with new products and asset managers. Guardian's capital adequacy is extremely strong and supports the rating,

Operating Companies Covered

By This Report

Financial Strength Rating

Local Currency

AA+/Stable/—

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as measured by Standard & Poor's Ratings Services' new and stressed capital models. Total adjusted capital decreased by approximately 8.1% to \$4.3 billion in 2008. The decrease in capital was caused by a decline in the value of investments but was protected from more severe declines by an effective hedging program that limited its downside capital movements. The company has increased its capital stability through diversification of its total equity exposure and by hedging the downside risk and its effect on capital. Guardian's operating performance is strong and historically remained stable, with a statutory pretax return on assets (ROA) (excluding realized capital losses) of 0.59% in 2008 compared with 0.95% in 2007. Higher policyholder dividend, a one time gain from the 2007 termination of the HealthNet joint venture, and losses from the annuities segment led this decline in operating earnings. Guardian's investment portfolio is strong in its quality and management, and focuses on producing long-term economic returns for policyholders by optimizing risk-adjusted total returns rather than managing to book yield. In the past few years, the company has focused on developing a comprehensive risk management program that has benefited all aspects of its business profile, including its investment risk exposure. As a result, Guardian's performance has been more stable, and we expect that stability to continue.

Outlook

The stable outlook reflects Standard & Poor's expectation that earnings will continue to support the rating and that Guardian's enterprise risk management (ERM) will continue to evolve with its product offerings. Standard & Poor's expects capital adequacy and liquidity to remain rating strengths. The company's operating performance will remain consistent with historical levels. The statutory pretax ROA is expected to be greater than 50 basis points. We expect the investment profile to remain relatively conservative, with investment risks considered within the scope of the company's overall risk management framework.

Competitive Position: Strong General Agency System Is The Foundation

Guardian's competitive position is very strong based on its product leadership in individual life, DI, group insurance, and retirement products, and is supported by a highly productive and efficient general agency system. Guardian is one of the top providers in individual life, individual DI, and group dental insurance, and its average life insurance premium per policy is more than twice its peers'. Guardian has successfully launched new penetration strategies with target populations. Four-year agent retention is about double that of its peers at 34% and remains significantly higher than the declining industry average.

Guardian Life Insurance Co. Of America And Guardian Insurance & Annuity Co.

Table 1

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Selected Statistics					
—Year ended Dec. 31—					
(Mil. \$)	2008	2007	2006	2005	2004
Capital adequacy ratio (%)	AAA	365.3	292.1	325.5	320.3
Liquidity ratio (%)	261.0	277.6	303.0	312.4	283.4
Total assets (including separate accounts)	36,263.6	38,486.6	36,769.6	34,417.2	33,010.3
Total premiums and considerations	6,867.5	7,119.3	7,218.6	6,977.1	6,739.4
Pretax income	222.1	356.7	311.2	334.2	349.3
Total adjusted capital (including asset valuation reserve)	4,290.1	4,673.9	4,355.8	3,919.3	3,645.3

Table 2

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Business Statistics					
—Year ended Dec. 31—					
(Mil. \$)	2008	2007	2006	2005	2004
Total revenue	8,651.7	9,105.4	8,964.9	8,734.6	8,409.1
Total premiums and considerations	6,867.5	7,119.3	7,218.6	6,977.1	6,739.4
Premium revenue increase (%)	(3.5)	(1.4)	3.5	3.5	(6.0)
Deposits	128.4	137.2	121.3	138.8	127.0
Total premiums, considerations, and deposits	6,995.9	7,256.5	7,339.8	7,115.9	6,866.4
Premiums, consideration, and deposit revenue increase (%)	(3.6)	(1.1)	3.1	3.6	(6.3)
Net first-year premiums	1,245.5	1,401.4	1,338.9	1,357.8	716.3
Net first-year increase (%)	(11.1)	4.7	(1.4)	89.5	(41.1)
Net single premiums*	744.0	680.5	715.3	615.6	566.4
Net single increase (%)	9.3	(4.9)	16.2	8.7	(7.1)
Separate accounts assets	5,387.9	8,337.8	8,028.2	7,538.2	7,740.2
Increase in separate accounts assets (%)	(35.4)	3.9	6.5	(2.6)	0.2
Major lines					
Individual life	2,693.1	2,573.3	2,511.1	2,418.7	2,240.3
Individual annuities	530.6	723.1	781.9	632.3	650.6
Group life	315.3	307.6	287.9	269.8	253.2
Group annuities	433.4	500.7	467.9	493.8	507.5
Group accident and health	2,890.1	3,010.3	3,165.6	3,156.3	3,082.6
Individual accident and health	5.0	4.2	4.6	6.1	5.5
Aggregate of all other	0.0	0.0	(0.3)	0.0	(0.2)
Deposits	128.4	137.2	121.3	138.8	127.0

*Excludes annuity and fund deposits for 2001 and later.

Individual life

Guardian is one the top four large mutual companies selling participating life insurance through a career agency system, a product that Standard & Poor's considers to be the highest quality, most stable, and creditworthy life insurance product. Guardian's whole life insurance sales totaled \$185 million in 2008, which was flat relative to 2007 and is in line with general industry life insurance trends.

Guardian targets sophisticated, wealthy customers, small business owners, and professionals such as doctors. As a result, Guardian has one of the highest average face amounts among their peer group at more than \$672,000. Guardian also has strong policyholder persistency, which was higher than that of its peer group. In response to the flat whole life sales growth during the past several years, Guardian is aggressively targeting the small business market by tailoring products, bundles of products and services, and marketing campaigns to the needs of the small business owner. To complement this effort, the company is also providing advanced market training to its agents and leveraging its “Living Balance Sheet,” a Web-based application that provides agents with a better understanding of their clients’ financial needs. It guides agents through the sales process in one single platform and consolidates policyholder financial information. The software’s effect on sales is expected to be gradual as the number of subscribers increase and capabilities of the application expand. The intent of this tool is to increase sales and enhance agent retention because it is only available to Guardian’s agents and is lost if agents leave the company. The company offers a range of traditional whole life, term, universal life (UL), and variable life products, as well as supplementary asset accumulation products such as annuities and mutual funds. The company is planning to offer new long-term care and disability buyout products in the near term. Guardian is planning to redesign its UL and survivorship universal life products with secondary guarantees to ease the risk and capital pressure associated with them. The company avoids going aggressive on these products, hence not taking more risk. The current structure of Guardian’s UL products significantly reduces its exposure to investor-owned life insurance (IOLI), which typically have older policyholders. UL with secondary guarantee products are sold only through the Guardian career agent channel, which we believe has a significantly lower propensity for IOLI sales than those policies sold through independent channels. Guardian is encouraging field recruiting by increasing incentives, including monetary long-term compensation, recognition, and benefit plans as well as adding regional recruiting specialists and middle management development support. The Living Balance Sheet helps to retain agents by providing them with a means to enhance existing client relationships and build new leads. Guardian continues to face the challenge of increasing agents’ productivity as it takes on new, less-experienced agents. The company continues to develop agent training and is expanding its distribution capabilities and market presence in the small-business market.

Annuities

Guardian’s annuity business is conservatively managed, avoiding the risks experienced by large variable annuity writers, but lacks economies of scale because of their primary focus on participating life insurance. Annuity sales decreased 26% in 2008 to \$510 million from \$688 million in 2007. This decline was in line with industry trends. A dynamic hedging program supports the guaranteed minimum withdrawal benefit (GMWB) rider and may be used to support future riders. Guardian’s hedging program is focused on economic risk, not statutory accounting results, so financial reporting volatility may increase, especially for statutory earnings. As part of its risk management, Guardian closely monitors the hedging program and performs stress scenario testing quarterly. To augment its hedging program, Guardian has reinsured a high percentage of its in-force GMWB risk, which results in both a transfer of risk to the reinsurance company and the smoothing of Guardian’s statutory earnings.

Group products

Guardian's group product offering has a very strong competitive position through DI, dental, life, worksite, and medical products, and it differentiates itself by focusing on less competitive, smaller plans and the stronger margins they offer. Group non-medical sales increased about 4% to \$501 million in 2008 from the prior year. The more volatile group medical sales (excluding joint ventures) increased by 7% year over year. Dental sales have increased more modestly as Guardian's dental network expands despite increasingly aggressive competition from other large players, especially in the large case market (100-plus lives). Group life and disability sales were almost flat year over year, and the base remains small compared with group medical and dental products. Guardian has developed a competitive advantage through its service capability, the size of its network coverage, and the broad product suite it offers to support one-stop shopping. It couples its product array with additional features, such as employee-assistance plans, which it outsources. A very strong service platform and strong ties to broker distribution support its medical products. Guardian holds a market-leading position in group dental. Its group dental product is offered at more than 100,000 locations and is one of the largest distribution platforms in the U.S. The company also holds a top three market position in its disability products. In addition, group life has a top 10 position, although it's currently facing stiff competition through aggressive competitive pricing.

Individual disability and long-term care Individual DI is offered through Berkshire Life Insurance Co. of America (BLICOA) as a result of its 2001 merger with Guardian and Guardian Career system. Individual DI sales in 2008 decreased 3% to \$65 million, with \$10 million of long-term care (LTC) sales and \$1 million of multilife sales. The individual DI market is growing relatively slowly, and most growth comes from taking market share from competitors. Guardian continues to develop its multilife product by increasing its distribution capabilities and continuously improving its products. The company introduced an LTC product in 2004 that reinsures 90% of the risk of the product. Guardian continues to refine its internal process and systems to support risk management for LTC. Individual disability and LTC are viewed as supplementary products to traditional life at Guardian. The profitability of DI and LTC contribute to the underlying cash value returns on the company's core life insurance products and hence enhance the competitive position of the traditional whole life products.

Historical

Guardian's core competitive advantage is its highly efficient national general agency system. The system is highly entrepreneurial, with individual general agents who set their own strategies and run their own businesses, supported by Guardian's high-quality products, marketing, technology and selling system. Guardian sells some products through independent producers, but contracting is done almost exclusively through the company's general agents to avoid compromising the strong relationship. Guardian's general agents are expected to achieve annual sales goals to earn maximum compensation levels, and the company supports the general agents through several customized marketing programs. Guardian's franchise is built on mutuality and its participating whole life product. Because of its long-term investment strategy of balancing fixed-income and equity investments, the company historically has had one of the most competitive dividends in the industry. Guardian offers a full spectrum of life products, including second-to-die, term insurance, and variable life, to meet all of the protection needs of its high net-worth base. Guardian's 2001 merger with BLICOA added 73 new field representatives and, more importantly, increased scale in the individual DI arena. The larger scale

allows the company to invest more in underwriting and claims investigation functions, as well as to cull the best products and practices from the two predecessor companies. Unlike life sales, about 60% of individual DI sales come through the brokerage channel. Guardian's group insurance business was historically concentrated in indemnity major medical, and more recently in managed care. However, the company has made a concerted effort to expand its life, DI, and dental lines, making it a full-service provider with a decreasing proportion of sales coming from the more volatile medical line. Guardian exited the medical business in 24 states in the past few years and now focuses on 14 key markets where it believes it can be successful. The retirement product lines focus on annuity and mutual fund manufacturing and distribution through Guardian's subsidiary broker-dealer, Park Avenue Securities, for Guardian-registered representatives, and through Guardian Investor Services for distribution to outside broker-dealers. In 2006, Guardian acquired a majority interest in RS Investments to complement its asset management capabilities.

Prospective

Standard & Poor's expects growth in traditional life insurance to be in line with other industry peers in 2009, which maybe more moderate than in previous years because of the challenging economic environment. With similar reference to industry trends, we expect variable annuity sales to be down while fixed annuity sales will likely increase in 2009. However, the company may struggle to increase group sales. Individual DI sales are expected to continue their solid growth.

Management And Corporate Strategy: Expanding Strategy To Target Small Businesses

Standard & Poor's views Guardian's management and corporate strategy as marginally positive. Guardian's strategy is built on its ability to leverage its mutual ownership structure into a competitive advantage through its highly effective captive distribution system. Competitive product development is conservatively designed to support policyholder demands. Guardian is seeking to expand its scope by targeting the protection and wealth-accumulation needs of small business owners, although it faces some sizable competition from similar product offerings. The company is increasingly focusing on the affluent small business market segment, where it has a strong market position. Guardian is developing protection products with business owners in mind, and the broader array of accumulation and health-related products should provide a competitive product set for penetrating this market. Guardian is also upgrading its current products by adding new and more attractive features to remain competitive in the current market. Guardian is increasingly focusing on improving its technical platform; to further strengthen it, the company acquired eMoney to strengthen its Web-based selling system and American Financial System, a TPA, to enter the Executive Benefit segment. Guardian has successfully targeted a broad spectrum of policyholders, including a large share of high-net-worth customers, by effectively communicating the value of all company earnings supporting policyholder dividends and the security of capital growth, rather than being diluted by shareholder dividends. The company's decisions result from its commitment to create actual economic value for policyholders rather than the mere appearance of economic value that can be achieved through various financial reporting practices. The company's history of higher-than-average policyholder dividends and maintaining a strong capital base supports the objective. In a crowded market with increasingly aggressive product features, the value proposition of Guardian's traditional life products has been borne out with sales growth in flat

segments. One measure of the company's success in communicating its message is the Guardian per-policy life premium, which is 104% greater than its peers'. The company does not offer aggressive UL product features, and it believes its conservatism will be rewarded over time, which is a luxury many public companies do not have because of shareholder expectations. Conservatism has not translated into inaction. Guardian recognizes that its customers are seeking wealth-accumulation products to complement their protection products, and the company responded by introducing a GMWB rider that is prudently structured and dynamically hedged. The demutualization of many other major players has left a competitive niche for Guardian and others that have remained committed to policyholder value and participating permanent life insurance products. Standard & Poor's has some concern about the productivity of the field force because new agent recruiting struggled in 2005, and new, less-experienced agents require more time and training to become fully productive. Guardian also increased its agent recruiting requirements and reduced the number of less-productive agents. Guardian's cornerstone is its captive agency force, which we view as a key strength to the rating. The company has devoted considerable energy to improving its marketing capability with a program to help general agencies modernize their marketing approaches through technology and enhanced training. The company has developed new incentives to promote growth in agent recruiting, which will be central to its growth aspirations. Guardian has invested to build its asset accumulation businesses to serve all of the financial needs of its high-net-worth customer base, although results have been mixed. The company has recruited new investment management talent, and preliminary results are encouraging. In the 1990s, Guardian established a full-service broker-dealer, a federally chartered trust bank, and in the 1970s a mutual fund complex. The company acquired a majority interest in a small asset manager, RS Investments; increased its scale in assets under management by about \$12 billion; rebranded its Park Avenue Funds; and increased the number of higher performing funds, specifically in small- and mid-cap equities.

Operational management

Guardian has reorganized individual product distribution under one executive, which is a departure from its historical organizational structure that aligned distribution with each product-focused profit center. Guardian field agents are the primary producers for the company, but group and retirement wholesalers play a critical role. BLICOA focuses on individual DI but also provides brokered life insurance. Guardian general agents have a brokerage general agency contract with BLICOA to build loyalty and reduce internal competition.

Financial management

The company's risk tolerance is conservative, both in product structures and investment management. Its avoidance of aggressive UL structures at the cost of sales is the clearest example of this philosophy. It is this approach that helped avoid the sales practices issues that affected many large companies in the mid-1990s. Guardian holds substantial reserves in excess of many of the regulatory requirements, which reflects the company's actuarial conservatism and the importance it puts on protecting policyholder value. Investment risk is generally conservative and is managed on a total return basis to maximize economic returns over accounting returns, unlike many large public competitors that favor near-term consistency for shareholders over long-term returns for policyholders. Although the company has an above-average industry exposure to lower-quality

investment-grade bonds, Guardian's total equity exposure, including public, private, and real estate risk, is lower than that of peers' given its predominance in well-diversified public, rather than private, equity. The company is seeking to further diversify its total equity exposure by increasing its investment in real estate equity. Guardian manages its general account on a duration-neutral basis; Guardian's more duration-sensitive life and annuity portfolio is managed on a key rate duration-matched basis with little convexity risk. Although historically equity exposure caused capital volatility, the company now uses a hedging strategy to limit the downside capital effect of its long-term investment strategy. The hedging program is managed to maintain conservatism in capitalization relative to the company's peers.

Enterprise Risk Management: Comprehensive Approaches Reduces Potential Volatility

Guardian has an adequate ERM process, with many aspects viewed as strong. Guardian has well-defined risk limits for both assets and liabilities that are enforced through a series of risk committees, whose members are senior management of the team. ERM, both in scope and depth, is organized around a formal, multidisciplinary structure and is clearly a part of all significant decision-making. The overarching framework is evident in all aspects of the business, including product design, investments, asset/liability management, operations, security, and capitalization. The company's mutual status allows it to prudently build products around supportable risk management rather than rushing to meet market demands, although this is not to say the company does not take informed risks. Past issues, such as the company's overinvestment in technology common stocks in the late 1990s, have positively influenced its current risk management practices. Conservatism is a central attribute of the company's risk culture. The central pillar of Guardian's profile is its whole life product set, although the company does offer individual disability, dental products, and some equity-based products, including annuities. Guardian offers products based on consumer and distribution needs and its own risk tolerances rather than evaluating product alternatives on a risk-adjusted return basis. However, the company may develop a risk-adjusted approach as its ERM process evolves. Guardian's investment management is very strong, with close matching of assets to liabilities. Insurance risks are moderate, with exceptions in its LTC, which is 90% reinsured, and living benefit annuity products, which conservatively structured and supported by reinsurance with the remaining risk is managed through a hedging program. Operational risks are comprehensively approached, from both security and business continuation perspectives, and the company stays involved in national and governmental groups. Guardian's risk profile is stable and is not expected to change in the near term. Guardian's risk management culture is strong and permeates the organization at all levels. The tone is collaborative rather than contentious, although appropriate tension exists among various constituents such as marketing, actuarial, and investments. The approach starts at the top and is managed through an overarching risk management committee with three risk subcommittees reporting to it. These subcommittees (product risk, compliance, and operational risk) have functioned under separate charters since 2003. The subcommittees allow appropriate delegation, and more subcommittees are being added, including ERM subcommittees at BLICOA, individual life, and the group businesses. The risk culture has developed an appropriate feedback loop to manage risks at various levels. All employees must follow and certify compliance with a code of conduct, which is administered electronically. Credit risk is tightly controlled, with concentration exposures managed to a hard limit on a daily basis. The company

leverages its mutuality by managing investments on a long-term economic basis rather to short-term accounting results, as many public companies feel pressured to do. Although accounting results may exhibit some volatility, true economic risk should be within the tolerance of the rating. The company maintains a highly disciplined approach to credit risk management, employing fundamental analysis across the credit spectrum. The company continues to hold above-average 'BBB' exposure (31.1% of fixed-income assets and 37.3% of total fixed income and convertible bonds). Duration matching is maintained at the life company, where the predominantly whole life liability profile exhibits significant stability. The more interest rate sensitive annuity company employs key rate-duration matching managed within tight tolerances. Convexity is actively managed across assets classes. The company's exposure to equities is somewhat higher than the overall industry average, although it is slightly lower than its large mutual peers. The exposure is managed and hedged in aggregate to minimize capital loss exposure such as it experienced from 2000 to 2003. Aggregate exposure balances direct equity investments such as common stock, private and real estate equities, and affiliates along with indirect exposures, such as those associated with the company's living benefit riders. The product is conservatively structured with bonus incentives to delay withdrawals, fixed-investment allocations with limited investment choices, and automatic rebalancing. A dynamic hedging program covering risks associated with delta, rho, and vega, and gamma risk contemplated as the program grows, should support the company's GMWB rider. The hedge program was designed in consultation with a leading actuarial consulting firm and a large investment bank known for its long-dated hedging expertise. Although the company has developed a state-of-the-art hedging program, Guardian chose to reinsure a high percentage of its GMWB exposure once it began selling the product. Guardian's product design process is conservative and rigorous, with all appropriate disciplines brought to bear, such as financial, actuarial, investments, legal, and operational. Product designs are conservative, and more aggressive features are fully vetted and supported from a risk management perspective before being adopted. Guardian is predominantly a life insurance company with strong bias toward traditional whole life. The company has been fundamentally opposed to aggressive secondary guarantees, and its low UL sales reflect that conviction. Other product lines such as group medical, individual disability, and dental are also conservatively managed, with the company sacrificing market share and sales to avoid aggressive competitor offerings such as multiyear rate guarantees. The company consistently maintains higher-than-required reserves as part of its conservative positioning. The operational risk committee collaborates on all initiatives considered integral to the development of all systems, products, and functions. The company is involved in both governmental and national security groups to develop best practices in operational risk management. The company has a significant corporate presence in lower Manhattan and has built redundant remote capabilities to minimize business disruptions. Guardian conducts periodic shutdowns to test its business continuation systems and has not experienced significant issues. Validation standards are established to quantitatively measure the test results. Data security is well managed, and viruses have been contained with no significant impact to business operations. Physical security at the Manhattan office is typical of more secure New York City businesses. Guardian uses a wide array of risk models to manage its risk, including both proprietary and third-party platforms such as PTS, TAS, Yield Book, CMS BondEdge, and Lehman POINT. The investment area uses value at risk, cash flow testing models, key rate duration and convexity, as well as a hedge program built on Milliman's MG Hedge system to reduce aggregate equity exposure and manage higher-risk products such as annuities with living benefits. The investment department works

closely with the actuarial department to model company risks. Risk management is ingrained in Guardian's profile and plays a clear role in the company's strategic planning. The company has used ERM to mitigate downside economic risk and to support informed risk-taking in its product development. As a mutual, the company is content to grow mostly organically, and Standard & Poor's does not expect the company to pursue large acquisitions. We expect any small acquisitions to conform to Guardian's current risk profile and to be managed within existing risk tolerances. We expect the company's broad approach to risk management to continue to grow. Guardian is clearly committed to a comprehensive ERM process that balances its conservatism and mutuality while developing new products under the evolving risk-management framework. As an ERM initiative in 2006, Guardian developed a comprehensive economic capital model. The economic capital model calculates the required capital a company needs on a stochastic basis. Guardian continues to explore ways to use this modeling to refine its capital attribution.

Accounting

Guardian's analysis was based on publicly available GAAP and NAIC statutory financial statements as of Dec. 31, 2008. The GAAP audit opinion of PricewaterhouseCoopers LLC on March 6, 2009, is that the consolidated financial statements were presented fairly and in accordance with GAAP. Guardian is considered to have a history of conservative reserving practices and has been an active participant in reserve standard setting. Adjusted GAAP income reflects adjustments for deferred acquisition cost changes associated with capital gains, future margin assumptions, and policyholder dividends.

Operating Performance: Solid Results And Improved Consistency

Although declined, Guardian's operating performance remains strong, with a statutory pretax ROA of 0.59% in 2008, excluding realized capital losses. Consolidated statutory pretax operating income was \$267 million in 2008 compared with \$488 million in 2007. The 2008 GAAP pretax operating income increased to \$595 million from \$450 million in 2007. Volatility was mainly a result of higher policyholder dividend payouts, amortization of DAC, and losses from annuities segment.

Table 3

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Summary Operating Statistics					
	—Year ended Dec. 31—				
(Mil. \$)	2008	2007	2006	2005	2004
Pretax income	222.1	356.7	311.2	334.2	349.3
Net income	402.2	312.0	396.2	396.8	299.3
Net earnings adequacy ratio (%)	N.A.	176.0	82.8	88.4	103.9
Return on revenue (%)	2.57	3.92	3.47	3.83	4.15
Return on assets (%)	0.59	0.95	0.87	0.99	1.09
Pretax statutory rate of return on capital (%)	N.A.	10.79	8.93	11.69	13.11
Pretax GAAP income	523.7	469.3	323.5	385.9	337.9
Pretax GAAP rate of return on capital (%)	N.A.	14.19	9.29	13.50	12.69
Pretax GAAP return on assets (%)	0.98	0.85	0.62	0.77	0.69

N.A.—Not available.

Table 4

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Operating Statistics					
—Year ended Dec. 31—					
(Mil. \$)	2008	2007	2006	2005	2004
General expenses	1,086.5	1,105.8	1,067.1	1,013.4	974.3
General expense ratio (%)	14.8	14.9	14.8	14.6	14.5
Expense ratio (%)	19.8	20.6	19.5	19.0	19.2
Unit expenses (in whole dollars)	236.4	208.9	226.8	180.7	156.7
General expenses as a percentage of total assets	3.0	2.9	2.9	2.9	3.0
Commission ratio (%)	3.9	4.1	4.1	4.3	4.5
Lapse ratio (ordinary only) (%)	6.1	5.9	5.5	6.1	7.7
Mortality ratio (%)	122.5	207.7	237.6	227.4	262.6
Investment spread (%)	2.4	2.5	2.5	2.5	2.6
Accident and health					
Loss ratio (%)	73.5	74.0	73.4	76.0	76.4
Expense ratio (%)	25.0	24.4	23.2	21.9	21.8
Combined ratio (%)	98.5	98.4	96.5	97.9	98.2

Guardian's expenses are stable and in line with its past expenses, but higher relative to those of peers. Its general expense ratio was 14.8% in 2008 compared with 14.9% in 2007. Guardian's peers include deposit-type funds and single-premium, bank-owned life insurance and company-owned life insurance, both of which have very low expense ratios in their total premium calculations. Guardian does not offer these products, so it's difficult to compare expense ratios with those of its peers.

Prospective

Standard & Poor's expects Guardian's consistency in the past two years to continue in 2009, with moderate improvement in pretax GAAP operating income.

Investments: Diversification Has Improved Profile And Reduced Volatility

We consider Guardian's investment portfolio to be strong based on its quality and management, with significant improvement in overall management and strategy. Guardian's portfolio is managed on a duration-neutral basis, and the more interest rate sensitive portfolio for life and annuities is managed on a key rate duration-matched basis with negligible convexity risk. Unlike many of its demutualized peers, Guardian has an investment philosophy based on risk-adjusted total returns trading on relative value rather than on managing-to-book yield. This approach emphasizes the company's long-term strategy of maximizing economic returns rather than accounting income, with investment professional compensation aligned to this goal.

Table 5

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Investment Statistics					
—Year ended Dec. 31—					
(Mil. \$)	2008	2007	2006	2005	2004
Net investment income	1,568.3	1,549.6	1,461.1	1,378.5	1,288.3
Total invested assets	28,674.1	28,252.5	26,754.8	24,943.2	23,379.1
Net realized capital gains	124.1	75.7	121.3	98.8	14.7

Table 5

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Investment Statistics (cont.'d)					
—Year ended Dec. 31—					
(Mil. \$)	2008	2007	2006	2005	2004
Asset risk to invested assets (%)	N.A.	7.3	8.3	6.6	6.4
High-risk assets to total invested assets (%)	11.5	15.0	13.9	13.5	13.9
Net investment yield (%)	5.5	5.6	5.7	5.7	5.7
Five-year realized capital gains to invested assets (%)	0.3	0.3	0.3	0.0	0.3
Portfolio composition					
Cash, cash equivalents, and short-term investments (%)	3.9	1.7	2.3	0.3	(0.3)
Bonds (%)	61.3	60.8	61.7	64.8	65.8
Mortgage-backed securities (%)	5.7	6.4	6.5	5.3	5.5
Mortgages (%)	12.1	11.0	10.2	9.7	8.9
Policy loans (%)	8.4	7.7	7.3	7.2	7.2
Stocks (%)	4.8	9.7	11.1	10.3	10.6
Real estate (%)	0.6	0.5	0.5	0.5	0.6
Other (%)	3.1	2.1	0.3	1.9	1.8

N.A.—Not available.

In prior years, Guardian's unhedged and significantly more concentrated public equity exposure led to higher-than-average volatility. Current diversification and the aggregated equity hedge program have materially reduced the potential for similar volatility. Guardian continues to hold an above-average investment allocation in equities relative to the broad industry, though similar to large mutual peers. Historically higher public equity exposure with concentrations in technology led to unacceptably high capital volatility. However, the company now has well-defined exposure limits and employs a dynamic hedging strategy to minimize downside risk to maintain a target capital ratio. Guardian has hedged its public equity portfolio to protect a high minimum capital ratio. More than 90% of the bond portfolio is investment grade, which is higher than peer averages. The quality of the portfolio continues to improve, though was still more heavily weighted toward 'BBB' rated securities (37.9%) as of year-end 2008 compared with 36.6% at the end of 2007.

Liquidity: Very Strong And Stable

Guardian's liquidity is very strong, with a liquidity ratio of 278% as of year-end 2007, as measured by Standard & Poor's model. Guardian maintains a highly liquid portfolio, although its investment strategy of expanding its exposure in equity real estate, commercial mortgages, and private placements will marginally reduce its asset liquidity profile. The overall liability profile is very stable, with a large block in participating whole life policies. The new product designs remain conservative. Standard & Poor's favorably views the company's new GMWB variable annuity rider, which is structured with incentives to encourage asset retention and is supported by a dynamic hedging program that adds market risk protection. Exposure to fixed annuities is low, but has modestly increased in recent years, and does add some liquidity need.

Table 6

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Liquidity and Reserves Statistics					
	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	2008	2007	2006	2005	2004
Allocation of reserves					
Individual life	81.6	80.9	79.5	78.6	77.9
Group life	1.0	1.0	1.0	1.0	1.0
Individual annuities	7.6	8.3	9.6	10.3	10.4
Group annuities (including guaranteed investment contracts)	0.5	0.5	0.5	0.5	0.6
Accident and health	3.3	3.4	3.4	3.3	3.5
Other	6.1	5.8	6.0	6.3	6.6
Liquidity ratio (%)	261.0	277.6	303.0	312.4	283.4
Surrenderable annuities to total reserves (%)	18.5	20.7	N.A.	N.A.	N.A.
Liquid assets to total assets (%)	51.1	54.0	0.0	N.A.	N.A.

N.A.—Not available.

Capitalization: Hedging Strategy Protects Capital Strength

Guardian's capital adequacy is considered extremely strong under both Standard & Poor's new and stressed capital models. At year end 2008, total adjusted capital declined to \$4.3 billion from \$4.6 billion at the end of 2007, due to a decline in asset values. Even with the decline in capital, Guardian maintained 'AAA' capital under both Standard & Poor's new and stressed capital models. Guardian received considerable protection from their hedging program, which provided a floor for their capital at a 15% capital-to-assets ratio. Although capital declined 8% from 2007 to 2008, we believe that without the hedging program's protection the capital decline could have been 15%, which would be in line with similarly rated peers' losses. The company's generally conservative actuarial reserving practices add cushion to capital. Without surplus notes or other debt capital, the quality of Guardian's capital is very strong.

Table 7

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Capitalization Statistics (cont. 'a)					
	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	2008	2007	2006	2005	2004
Total assets	36,263.6	38,486.6	36,769.6	34,417.2	33,010.3
General account assets	30,875.7	30,148.8	28,741.5	26,879.1	25,270.1
Total liabilities excluding separate accounts (excluding asset valuation reserve)	26,968.7	25,835.4	24,725.4	23,276.9	21,984.0
Total adjusted capital (including asset valuation reserve)	4,290.1	4,673.9	4,355.8	3,919.3	3,645.3
Unrealized capital gains	(696.6)	25.3	115.1	(23.7)	60.1
Capital adequacy ratio (%)	AAA	365.3	292.1	325.5	320.3
Company action level to NAIC risk-based capital ratio (%)	426.0	437.0	400.2	400.9	378.7
Assets risk to total adjusted capital ratio (%)	N.A.	44.5	51.1	42.5	41.6
High-risk assets to total adjusted capital ratio (%)	76.8	90.9	85.4	85.7	89.2
Surplus from operating earnings after dividends (%)	208.8	146.0	88.8	61.8	64.4

Table 7

**Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Capitalization Statistics
(cont. 'd)**

<i>(Mil. \$)</i>	—Year ended Dec. 31—				
	2008	2007	2006	2005	2004
Stockholder dividends/net income	0.7	0.8	1.5	19.7	17.0
Net premiums to gross premiums (%)	92.7	92.6	93.5	93.3	92.1
Net reserves to gross reserves (%)*	91.4	91.4	91.5	91.6	91.2
Stockholders' dividends	0.0	0.0	13.1	0.0	0.0
Stockholders' dividends to net operating income (%)	0.0	0.0	4.8	0.0	0.0

* Includes annuity and fund deposits. N.A.—Not available.

Historical

Guardian historically has had extremely strong capital, and this has allowed the company to take on more investment risk compared with less-capitalized peers. However, investment losses during the equity market decline in 2001 had a significant impact on Guardian's capital, a decrease of 19%. Since the downturn in 2001, Guardian's capital redundancy at the rating level has increased, aided by both consistent statutory earnings and strengthened ERM practices such as a hedging program that protects against equity market volatility.

Prospective

We expect that Guardian's capital will continue to be extremely strong given their prudent risk management practices and conservative investment portfolio. We expect that Guardian will continue to execute well on its stated risk tolerances. Although the equity hedging strategy has benefited Guardian in a down market, their lower equity exposure could put the company at a relative disadvantage to their peers if equity markets rise rapidly.

Financial Flexibility: Very Strong, With Several Untapped Sources Of Capital

Guardian's financial flexibility is very strong. Although the company's mutual status limits capital market access, Guardian currently has internal capacity through its excess capital and potential external access through surplus notes and other instruments. In addition, the company has substantial capacity to leverage its liabilities by reinsuring its large, stable life insurance business to raise capital.

Ratings Detail (As Of 20-Jul-2009)*
Operating Companies Covered By This Report
Guardian Life Insurance Co. of America

Financial Strength Rating

Local Currency

AA+/Stable/—

Counterparty Credit Rating

Local Currency

AA+/Stable/—

Guardian Insurance & Annuity Co.

Financial Strength Rating

Local Currency

AA+/Stable/—

Issuer Credit Rating

Ratings Detail (As Of 20-Jul-2009)* (cont. 'd)

Local Currency	AA+/Stable/—
Domicile	New York

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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