



THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

Information Memorandum

Dated as of April 10, 2019

For Informational Purposes Only.

The information contained herein does not constitute an offer to sell any products or services

Risk Factors

Risk Factors Related to Guardian

The Funding Agreements are unsecured obligations of Guardian. If the Funding Agreements were not treated as insurance contracts, they would be accorded the same priority in a liquidation or dissolution of Guardian as its other general unsecured obligations.

The Funding Agreements, which are the sole source of payments for the Notes of any Series, are unsecured obligations of Guardian and, in the event of Guardian's insolvency, will be subject to the provisions of Article 74 of the New York Insurance Law (the "Liquidation Act"), which establishes the priority of claims from the estate of an insolvent New York insurance company. Debevoise & Plimpton LLP, special counsel for Guardian, has opined that in any rehabilitation, liquidation, conservation, dissolution or reorganization relating to Guardian, under New York law as it is in effect on the date of this Offering Memorandum, the claims under each Funding Agreement with respect to payments of principal and interest would be accorded a priority in liquidation equal to that of policyholders of Guardian (*i.e.*, would rank *pari passu* with the claims of policyholders of Guardian) and superior to the claims of general creditors of Guardian. Such opinion of counsel is based upon certain facts, assumptions and qualifications (as set forth therein), is only an opinion and does not constitute a guarantee, and is not binding upon any court, including without limitation a court presiding over any rehabilitation, liquidation, conservation, dissolution or reorganization of Guardian under New York insurance law. If the Funding Agreements were not treated as insurance contracts under New York law, they would be accorded the same priority in a liquidation or dissolution of Guardian as its other general unsecured obligations.

A downgrade or a potential downgrade in Guardian's financial strength ratings could harm its business.

Ratings are an important factor in the competitive position of life insurance companies. Rating agencies regularly review the financial performance and condition of insurers, including Guardian. As of March 1, 2019, the financial strength ratings for Guardian as assigned by S&P, Moody's, A.M. Best and Fitch were AA+, Aa2, A++ and AA+, respectively. These ratings indicate a rating agency's view of Guardian's ability to meet its obligations to its insureds. These ratings are of interest to policyholders, but are not ratings of the Notes offered hereby and do not reflect an evaluation of the safety and security of the Notes. Any rating is not a recommendation to purchase, sell, or hold any particular security, including the Notes. Such ratings do not comment as to market price or suitability for a particular investor.

The rating agencies assign ratings based upon consideration of several qualitative and quantitative factors, including the rated company's operating performance and investment results, risk profile and capital resources. The rating agencies may also consider factors that may be outside of the rated company's control, including changes to general economic conditions. A downgrade in Guardian's ratings could adversely affect, among other things, its ability to sell certain of its products, the rate of contract surrenders and withdrawals, the return on the insurance and annuity products it issues and, ultimately, the results of its operations and its ability to compete for attractive acquisition opportunities. Guardian cannot predict what actions rating agencies may take in the future that could adversely affect its business. As with other companies in the financial services industry, Guardian's ratings could be downgraded or withdrawn at any time and without any notice by any rating agency.

Guardian's investment portfolio and aspects of Guardian's business are subject to the full range of market risks, including credit, liquidity and equity markets and interest rate risks.

Guardian's investment portfolio consists primarily of investment grade bonds, mortgage loans and policy loans. The portfolio also contains or may contain other investments such as public common stock, private equity, real estate, bank loans, CMBS, derivatives and non-investment grade bonds. The main risks facing the portfolio are credit risk, liquidity risk, equity market risk and interest rate risk and real estate-related risks.

Credit risk is the risk that issuers of investments owned by Guardian may default or that other parties may not be able to pay amounts due to Guardian. Guardian seeks to manage credit risk by a risk management process that combines active fundamental credit analysis with quantitative risk management and by portfolio diversification across various asset types, industry sectors and issuers and, in some circumstances, by purchasing credit protection using credit derivatives or using credit replication.

Closely related to credit risk is counterparty risk, which is the risk that counterparties in over-the-counter ("OTC") derivatives transactions may not be able to make required payments. Guardian attempts to reduce its derivative counterparty risk by the exchange of collateral between Guardian and its counterparties. Guardian uses over-the-counter derivatives on a limited basis and has collateral agreements in place with all counterparties. As of December 31, 2018, the combined mark to market value of all of Guardian's OTC derivatives positions was \$9.8 million, including \$9.7 million of foreign currency swaps and \$0.1 million of equity index options (meaning that Guardian would receive from its counterparties that amount if all transactions are terminated on that date). The total notional value of these OTC derivative positions was \$1,035.1 million, including \$1,009.8 million of foreign currency swaps and \$25.3 million of equity index options. Guardian had collateral posted to counterparties associated with uncleared derivatives positions of \$1.4 million and held collateral posted by counterparties of approximately \$10.3 million.

Although Guardian attempts to carefully and actively manage these risks, there can be no assurance that they will be managed successfully. Credit and counterparty risk could be heightened during periods of extreme volatility or disruption in the financial and credit markets. A widening of credit spreads can increase the unrealized losses in Guardian's investment portfolio. The factors affecting the financial and credit markets could lead to other-than-temporary impairments of assets in Guardian's investment portfolio.

Liquidity risk is the risk that policyholder mortality experience, demands for life insurance policy loans and surrenders and withdrawals and other funding requirements are greater than the amount of available cash and assets that can readily be converted into cash. Although certain types of investments such as Treasury bonds and short-

term investments can be converted to cash easily, investments which are not publicly traded, such as commercial mortgage loans, privately-placed fixed income securities, policy loans, limited partnership interests and equity real estate and certain mortgage-backed and asset-backed securities, generally cannot be as readily liquidated while other investments may be liquidated with higher than usual transaction costs in some market environments. Guardian attempts to manage liquidity risk by holding assets with what it views as sufficient liquidity to pay policyholder life insurance policy loans, surrenders, withdrawals and other cash outflow needs. However, there can be no assurances that Guardian will maintain sufficient liquidity to pay these amounts. Securities that are less liquid are also more difficult to value.

Equity market risk is the risk that stocks decline in value. Equity typically has more mark-to-market volatility than fixed income asset classes and, as a result, regulators assign higher capital charges for public equity investments.

The Guardian Insurance and Annuity Company, Inc. (“GIAC”) is a writer of variable annuity products. The account values of these products have been affected by past downturns in the capital markets, especially equity markets. Any future decrease in account values will decrease the fees generated by GIAC’s variable annuity products and may increase the level of reserves GIAC must carry to support those variable annuities issued with any associated guarantees.

Currency foreign exchange (“FX”) rate risk is the risk that changes in currency markets may increase FX volatility and result in mark-to-market losses for unhedged currency risk.

In order to attempt to reduce the effect of volatility from mark-to-market assets such as equity investments and FX exposure on its statutory surplus, Guardian currently employs a macro dynamic hedging program. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Information about Market Risk—Hedging Programs” for a description of this macro hedging program. There can be no assurances or guarantees that this macro dynamic hedging program will reduce Guardian’s equity and FX market risk.

While the dynamic hedging program seeks to protect Guardian’s capital from statutory mark-to-market investment losses in accordance with pre-specified risk guidelines, there are various risks that may impact the effectiveness of the program, including operational risks associated with the execution of the program, liquidity risks in the futures markets, availability of suitable instruments to replicate the options, model risks and basis risks between the futures and the underlying portfolios, continuity of trading in the futures markets in periods of distress, and changes in the relevant regulatory environment at the federal and state levels and the cost of hedging. In addition, the macro dynamic hedging program does not protect Guardian’s assets that do not have a mark-to-market impact on capital.

Interest rate risk is the risk of loss due to changes in interest rates. Guardian attempts to manage interest rate risk with what it believes to be a rigorous asset/liability management program, including the use of derivatives. For example, policyholder life insurance policy loans and surrenders and withdrawals may be higher than expected when interest rates are high, or interest rates may drop so low as to make it difficult to support minimum interest rate guarantees. This latter situation is exacerbated when policyholder deposits are higher than expected. While actions may be taken to mitigate the potential effects of such policyholder options, it is impossible to eliminate all risk. Similarly, some assets may have prepayment rights or call options which might be exercised when interest rates are low and borrowers can benefit from refinancing at lower interest rates. The asset/liability management program attempts to identify such risks and to utilize various instruments, including derivatives, to offset those risks in a cost-effective manner, but there can be no assurances it will be sufficient to significantly reduce or eliminate such risks. See “—Changes in interest rates may adversely affect Guardian’s business, results of operations, financial condition and liquidity.”

Significant financial and credit market volatility, changes in interest rates and credit spreads, credit defaults, market illiquidity, declines in equity prices, changes in currency exchange rates and declines in general economic conditions, either alone or in combination, could have a material adverse impact on Guardian’s business, results of operations and financial condition, which could prevent Guardian from making payments under the applicable Funding Agreement(s) when scheduled. In addition, market volatility can make it difficult for Guardian

to value certain of its assets, especially if trading becomes less frequent. Valuation may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on Guardian's results of operations or financial condition, which could prevent Guardian from making payments under the applicable Funding Agreement(s) when scheduled.

Some of Guardian's investments are relatively illiquid and are in asset classes that could experience significant market valuation fluctuations.

Guardian holds certain investments that lack liquidity, such as privately placed fixed income securities, commercial mortgage whole loans, non-agency residential mortgage-backed securities, asset-backed securities, commercial mortgage-backed securities, collateralized loan obligations, investments in subsidiaries and affiliates, policy loans, equity real estate, including real estate joint ventures and other limited partnership interests. These asset classes represented 48.0% of the carrying value of Guardian's total cash and invested assets as of December 31, 2018. Investments in partnerships and LLCs, which represented approximately 4.2% of the carrying value of Guardian's total cash and invested assets as of December 31, 2018, may produce investment income which fluctuates from period to period and are less predictable and more variable than may be the case with more conventional asset classes. In addition, many of these assets have limitations on redemptions and trading, which may cause them to be less liquid than more conventional asset classes, such as publicly traded bonds and equities.

In addition, as of December 31, 2018, Guardian had future funding commitments relating to investments in real estate, private equities, mortgage loans and private placements of \$1.4 billion. If Guardian were to require significant amounts of cash on short notice in excess of normal cash requirements or were required to return or post collateral in connection with its investment portfolio or derivatives transactions, Guardian could have difficulty selling these investments in a timely manner, be forced to sell them for less than it otherwise would have been able to realize, or both.

The reported value of Guardian's relatively illiquid types of investments, its investments in the asset classes described in the paragraph above and, at times, its higher quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If Guardian were forced to sell certain of its assets in a distressed market, there can be no assurance that it will be able to sell them for the prices at which it has recorded them and it could be forced to sell them at significantly lower prices. Moreover, Guardian's ability to sell such assets may be limited if other market participants are seeking to sell at the same time. See "—The determination of the amount of allowances and impairments taken on Guardian's investments is highly subjective and could materially impact its results of operations or financial position."

Guardian's valuation of fixed maturity, equity and trading securities may include methodologies that are subject to significant uncertainties and could result in changes to investment valuations that may materially adversely affect its results of operations or financial condition.

Guardian utilizes independent external pricing services such as FT Interactive Data Corp, Bloomberg and Markit for security pricing. During periods of market disruption, it may be difficult to value certain of Guardian's securities if trading becomes less frequent and/or market data becomes less observable. There may be certain assets or asset classes that were in active markets with significant observable data that become illiquid due to an adverse financial environment or volatile market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value may have a material adverse effect on Guardian's results of operations or financial condition, which could prevent Guardian from making payments under the applicable Funding Agreement(s) when scheduled.

The determination of the amount of allowances and impairments taken on Guardian's investments is highly subjective and could materially impact its results of operations or financial position.

The determination of the amount of allowances and impairments vary by investment type and is based on Guardian's periodic case-by-case evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information

becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. Such evaluations and assessments can change significantly from period to period, especially in times of high market volatility. Market volatility can make it more difficult to value Guardian's securities if trading in such securities becomes less frequent. In addition, a forced sale by holders of large amounts of a security, whether due to insolvency, liquidity or other issues with respect to such holders, could result in declines in the price of a security. There can be no assurance that management has accurately assessed the level of impairments taken and allowances reflected in the financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

The book value of Guardian's fixed income investments and the cost of equity securities is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. The assessment of whether impairments have occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. The decision to record an other-than-temporary impairment or write-down is determined by management's assessment of the financial condition and prospects of a particular issuer, projections of future cash flows, and recoverability of the particular security, as well as evaluation of Guardian's ability and intent to hold the securities for a period of time to allow for a recovery of value. Management's conclusions on such assessments may ultimately prove to be incorrect as facts and circumstances change.

The review of Guardian's fixed income and equity securities for impairments includes an analysis of the total gross unrealized losses by three categories of securities: (i) securities where the estimated fair value had declined and remained below cost or amortized cost by less than 20%; (ii) securities where the estimated fair value had declined and remained below cost or amortized cost by 20% or more for less than twelve months; and (iii) securities where the estimated fair value had declined and remained below cost or amortized cost by 20% or more for twelve months or greater. At December 31, 2018, of Guardian's total gross unrealized losses of \$1,079 million, approximately \$1,040 million, or 96.4%, of the gross unrealized losses fall into category (i), approximately \$20 million, or 1.8%, of the gross unrealized loss falls into category (ii) and approximately \$19 million, or 1.8%, of the gross unrealized loss falls into category (iii).

In addition, Guardian's management considers a wide range of factors about the security issuer and uses its best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations in the impairment of a commercial mortgage include, but are not limited to, the following: (i) significant change in the occupancy level of the underlying property; (ii) significant change in the rental rates; (iii) bankruptcy filings of major tenants; (iv) catastrophic events; and (v) other subjective factors. There can be no assurance Guardian's management will correctly assess allowances and impairments on its investments, which could lead to investment losses that adversely affect its ability to make payments under the applicable Funding Agreement(s) when scheduled.

Defaults on commercial mortgage loans and volatility in performance may adversely affect Guardian's results of operations and financial condition.

Commercial mortgage loans face delinquency and default risk. In addition, future refinancing risks for commercial mortgage loans have resulted in declining values on certain of such instruments. Commercial mortgage loans are carried at amortized cost under SAP. Guardian establishes valuation allowances for estimated impairments as of the balance sheet date. Such valuation allowances are based on the excess carrying value of the loan over the present value of expected future cash flows discounted at the loan's original effective interest rate or the value of the loan's collateral if the loan is in the process of foreclosure or otherwise collateral dependent. Guardian also establishes allowances for loan losses when a loss contingency exists for pools of loans with similar characteristics, such as mortgage loans based on similar property types or loan to value risk factors.

As of December 31, 2018, Guardian held \$4.5 billion (carrying value) of commercial real estate mortgage loans. The fair value of Guardian's commercial mortgage loan portfolio as of December 31, 2018 was \$4.5 billion, and there were no loans that were either delinquent or in the process of foreclosure as of December 31, 2018. The performance of Guardian's commercial mortgage loan investments, however, may fluctuate in the future. An increase in the default rate of Guardian's commercial mortgage loan investments or a borrower's inability to

refinance or pay off its loan at maturity could have an adverse effect on Guardian's results of operations and financial condition. In addition, 10% of the aggregate principal amount of Guardian's commercial mortgage loans are scheduled to mature in the next three years. If these loans are not refinanced or paid in full at maturity, Guardian's mortgage loan investments could be adversely affected.

Any geographic or sector concentration of Guardian's commercial mortgage loans may have adverse effects on its investment portfolios and, consequently, on its results of operations or financial condition. While Guardian seeks to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on its investment portfolios to the extent that the portfolio is concentrated.

Changes in interest rates may adversely affect Guardian's business, results of operations, financial condition and liquidity.

The profitability of the life insurance and annuity businesses of Guardian and its insurance subsidiaries is sensitive to interest rate changes, which could adversely affect Guardian's investment returns and results of operations. Despite remaining at relatively low level levels by historic standards, interest rates in the United States have recently increased and are expected to continue to increase in the near term. Periods of high or increasing rates have the potential to negatively affect Guardian's profitability in the following principal ways:

- In periods of increasing interest rates, life insurance policy loans, as well as surrenders and withdrawals on life insurance and annuity products may increase as policyholders seek investments with higher perceived returns. As of December 31, 2018, GIAC had outstanding \$774 million of annuities that were subject to surrender at book value without a surrender charge. This could result in cash outflows requiring GIAC to sell invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which could cause Guardian to suffer realized investment losses. As of December 31, 2018, GIAC had bond assets with a carrying value of \$199 million maturing on or prior to December 31, 2019.
- The income from certain of the insurance and annuity products of Guardian and its insurance subsidiaries is derived from the spread between the crediting rate it is required to pay under the contracts and the rate of return it is able to earn on its general account investments supporting such contracts. When interest rates rise, Guardian may face competitive pressure to increase crediting rates on such contracts. Guardian may increase its crediting rates more quickly than corresponding changes to the rates it earns on its general account investments, thereby reducing its spreads in respect of such contracts. This risk is heightened in the current market and economic environment, in which many securities with higher yields are unavailable. An increase in interest rates would also adversely affect the fair values of Guardian's fixed income securities.

U.S. long-term interest rates remain at relatively low levels by historical standards. Periods of low interest rates have the potential to negatively affect Guardian's profitability in the following principal ways:

- Low interest rates tend to decrease the yield Guardian earns on its portfolio of fixed income investments. This could in turn compress the spreads Guardian and its insurance subsidiaries earn on products, such as universal life and certain annuities, on which they are contractually obligated to pay customers a fixed minimum rate of interest. Should new money interest rates continue to be sufficiently below guaranteed minimum rates for a long enough period, Guardian and its insurance subsidiaries may be required to pay policyholders or annuity owners at a higher rate than the rate of return they earn on their respective portfolios of investments supporting those products.
- In periods of low interest rates, Guardian generally must invest the proceeds from the maturity, redemption or sale of fixed income securities from its portfolio at a lower rate of interest than the rate it had been receiving on those securities. A low interest rate environment may also be likely to cause redemptions and prepayments to increase. In addition, in periods of low interest rates, it may be difficult to identify and acquire suitable investments for proceeds from new product sales or proceeds from the maturity, redemption or sale of fixed income securities from Guardian's portfolio, which could further decrease the yield it earns on its portfolio or cause Guardian to reduce the sales of some products.

Guardian's exposure to credit spreads could adversely affect its results of operations, financial condition and liquidity.

Guardian's exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. A widening of credit spreads increases the net unrealized loss position of the fixed income investment portfolio and, if issuer credit spreads increase significantly or for an extended period of time, would likely result in higher other-than-temporary impairments. Credit spread tightening would reduce net investment income associated with new purchases of fixed income securities.

In addition, market volatility can make it difficult to value certain of Guardian's securities if trading becomes less frequent. As such, valuations of securities may include assumptions or estimates that may change significantly from period to period. This could increase the net unrealized loss position of Guardian's fixed income investment portfolio and increase other-than-temporary impairments, which could have a material adverse effect on Guardian's results of operations, financial condition or liquidity.

Sustained or significant deterioration in economic conditions could adversely affect Guardian's business.

Generally weak economic conditions may have a negative impact on Guardian's operating activities. Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets and inflation affect the business and economic environment and, ultimately, the amount and profitability of Guardian's business. In economic conditions characterized by higher unemployment, lower family income, lower business investment and lower consumer spending, the demand for Guardian's financial and insurance products could be adversely affected. In addition, elevated incidence of claims and lapses or surrenders of policies may occur. Policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Adverse changes in the economy could affect Guardian's earnings negatively and could have a material adverse effect on its business, results of operations and financial condition.

In addition, Guardian is susceptible to risks associated with the potential financial instability of the vendors on which Guardian relies to provide services or to whom it delegates certain functions. The same conditions that may affect Guardian's customers also could adversely affect its vendors, causing them to significantly and quickly increase their prices or reduce their output. Guardian's business depends on its ability to perform, in an efficient and uninterrupted fashion, its necessary business functions, and any interruption in the services provided by third parties could also adversely affect Guardian's cash flow, profitability and financial condition.

Guardian is subject to extensive regulation, which restricts its operations and imposes compliance costs.

Guardian and its insurance subsidiaries are subject to extensive regulatory oversight. Although Guardian endeavors to maintain all required licenses and approvals, its businesses may not fully comply with the wide variety of applicable laws and regulations or the relevant authority's interpretation of the laws and regulations, which may change from time to time. Also, state regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If Guardian does not have the requisite licenses and approvals or does not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend Guardian from carrying on some or all of its activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit such authorities to supervise the business and operations of an insurance company.

State insurance regulators and the National Association of Insurance Commissioners ("NAIC") continually reexamine existing laws and regulations and may impose changes in the future that put further regulatory burdens on insurers and that may have an adverse effect on Guardian's business, results of operations and financial condition, which could prevent Guardian from making payments under the applicable Funding Agreement(s) when scheduled. Guardian's business also could be adversely affected by regulations or changes in state law relating to standards of minimum capital requirements and solvency, including RBC measurements, asset and reserve valuation requirements, surplus limits, limitations on investments, limitations on transactions with affiliates, risk-based capital requirements and premium taxes or other regulatory or tax matters. In addition, from time to time regulators raise issues during examinations or audits that could, if determined adversely, have a material impact on Guardian. Guardian cannot predict whether or when regulatory actions may be taken that could adversely affect its operations.

Guardian's insurance business is subject to regulation with respect to policy rates, minimum guarantees and related matters. In addition, assessments are levied against Guardian as a result of mandatory participation in various types of state guaranty associations, which are state associations designed to protect policyholders in the event of insolvencies of insurers. The amounts of such assessments are highly unpredictable and could increase significantly if there is an increase in the number or size of insurance companies which become insolvent or subject to rehabilitation. The net amount of such assessments against Guardian was approximately \$4 million, \$25 million and \$2 million for 2018, 2017 and 2016, respectively. These amounts may not be an indication of future levels of assessments. See "Business of Guardian—Regulation."

Guardian is domiciled in the State of New York and the State of New York accounts for more premium income volume for Guardian than any other state, approximately 18.15% in 2018, 17.91% in 2017 and 18.31% in 2016. Accordingly, changes in New York laws and regulations that apply to business written in New York can affect Guardian disproportionately relative to its competitors. Examples of such changes include increases in premium taxes and resulting retaliatory taxes, other types of assessments, potentially higher reserve and capital requirements and changes such as with respect to disclosure of producer compensation that might have a less direct effect.

Furthermore, limited aspects of Guardian's dental business are subject to the Patient Protection and Affordable Care Act ("ACA"). In the small group market, ACA mandates a minimal level of benefits for pediatric dental care (the "Pediatric Mandate"), which may be sold separately as a stand-alone dental product or embedded in a medical product. The Pediatric Mandate is subject to some of the reform mandates imposed by ACA and may be subject to additional new state-by-state requirements as health care reform is implemented throughout the U.S. in the future. Such mandates could impact Guardian's ability to offer the Pediatric Mandate in the small group market either on or off the federal or state exchanges in future years.

Certain of Guardian's direct and indirect subsidiaries, as well as certain policies and contracts sold by them, are subject to various forms of regulation under the federal securities laws administered by the SEC. The Financial Industry Regulatory Authority, Inc. ("FINRA"), a securities self-regulatory organization, as well as the states in which certain of Guardian's direct and indirect subsidiaries offer securities products, provide investment advisory services, or conduct other securities-related activities, also regulate aspects of Guardian's securities-related businesses. These subsidiaries could be restricted in the conduct of their securities-related businesses should they fail to comply with such laws and regulations. Legal proceedings and regulatory investigations and inquiries with respect to revenue sharing, sales to seniors, and other aspects of the mutual fund and variable annuity businesses are ongoing and expected to continue in the future and could result in legal precedents, as well as new industry-wide legislation, rules, or regulations that could significantly affect the financial services industry, including mutual fund and variable annuity companies affiliated with Guardian. Future laws and regulations, or the interpretation thereof, could materially and adversely affect Guardian's business, results of operations and financial condition.

The NAIC, as well as certain state regulators, are currently considering implementing regulations that would apply an impartial conduct standard to recommendations made in connection with the sale of certain annuities and, in the case of New York, life insurance policies. In particular, on July 18, 2018, the NYSDFS issued a final version of amended Regulation 187, which adopts a "best interest" standard for the sale of life insurance and annuity products in New York. The regulation generally requires a consumer's best interest, and not the financial interests of a producer or insurer, to influence a producer's recommendation as to which life insurance or annuity product a consumer should purchase. In addition, the amendments to Regulation 187 impose a best interest standard on certain consumer in-force transactions. These amendments to Regulation 187 will become effective for annuity products on August 1, 2019 and for life insurance products on February 1, 2020. Guardian is continuing to assess the impact of the regulation on its business and has begun implementing on a plan to be in compliance with the regulation as of the effective dates. The regulation, when implemented, may have adverse effects on Guardian's business, results of operations and financial condition. In November 2018, the three primary agent groups in New York launched a legal challenge against the NYSDFS over the adoption of amended Regulation 187. It is not possible to predict whether this challenge will be successful.

Some of the regulatory authorities that oversee Guardian's businesses are considering or may in the future consider new regulatory requirements intended to assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which

existing regulations are applied. Guardian cannot predict the substance or impact of pending or future legislation, regulation or the application thereof. Any such changes could affect the way Guardian conducts its business and manages its capital, which in turn could materially affect its results of operations, financial condition and liquidity.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase Guardian's direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on its financial condition or results of operations.

The Dodd-Frank Act and resulting changes in federal laws and regulations continue to adversely affect Guardian's business, results of operations and financial condition.

In July 2010, Congress passed, and President Obama signed, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Policy and rule-making conducted after the enactment of the Dodd-Frank Act has changed and will continue to significantly change financial regulation. The Dodd-Frank Act establishes a general framework for systemic regulation that has imposed mandatory clearing, exchange trading and margin requirements on many derivatives transactions. Although regulations with respect to swaps and other derivatives that are regulated by the Commodity Futures Trading Commission (the "CFTC") have been largely implemented, final implementation for Guardian of requirements relating to initial margining of swaps is expected to go into effect in September 2020. Regulations for security-based swaps, which are regulated by the SEC, have been largely adopted but not yet implemented. These regulations differ in many respects from those adopted by the CFTC, the prudential regulators and regulators in the EU. As a result, it is possible that implementation of SEC regulations could adversely impact Guardian's positions in security-based swaps, such as credit default swaps and equity swaps.

Beginning in September 2020, Guardian will be required to post initial margin to its derivatives counterparties in respect to its swaps positions depending on the size of the swaps books of the broader Guardian group and the applicable threshold established by counterparties. Initial margin positing is required if the Guardian and its affiliated have "material swaps exposure." Under the rules, this requires average daily aggregate notional exposure to uncleared swaps, uncleared security-based swaps, foreign exchange forwards and foreign exchange swaps for specified prior period in excess of \$8 billion. Guardian expects that the requirements will be applicable to it. In addition, eligible margin for initial margin for swaps, like that for variation margin, is restricted to cash and liquid securities (such as U.S. government securities, government-sponsored enterprise debt securities, certain sovereign debt and specified corporate debt, listed equities and funds).

To the extent that Guardian's swaps or security-based swaps counterparty collects initial margin from it, Guardian may request that the derivatives counterparty segregate all such initial margin at a custodian. If Guardian does not request segregation, the custodian or counterparty may commingle such assets or collateral with the custodian's or counterparty's own assets or collateral, and in the event of the bankruptcy or insolvency of the custodian or counterparty, such assets and collateral may be subject to the conflicting claims of the creditors of the relevant custodian or counterparty, which may result in a loss to Guardian.

Guardian currently posts variation margin to and collects variation margin from counterparties to swaps subject to regulation by the CFTC, U.S. prudential regulators and authorities in the European Union (the "EU").

In addition, where Guardian enters into certain swaps that are subject to mandatory clearing, Guardian will be required to execute such swaps on a registered exchange or trading platform.

Further, where Guardian enters into a swap with non-U.S. counterparties in the EU, the regulations of the home or resident country of such counterparty generally apply regulatory requirements with respect to such swap that are similar to those adopted by the CFTC and the prudential regulators pursuant to the Dodd-Frank Act. The European Market Infrastructure Regulation ("EMIR"), like the CFTC regulations in effect in the U.S., requires reporting of derivatives and various risk mitigation techniques to be applied to derivatives entered into by parties that are subject to the jurisdiction of EMIR.

The Dodd-Frank Act also establishes a Financial Stability Oversight Council (“FSOC”) which has authority to designate non-bank financial companies as systemically important financial institutions (“non-bank SIFIs”) thereby subjecting them to enhanced prudential standards and supervision by the Federal Reserve. The prudential standards for non-bank SIFIs include enhanced RBC requirements, leverage limits, liquidity requirements, single counterparty exposure limits, governance requirements for risk management, stress test requirements, special debt-to-equity limits for certain companies, early remediation procedures and recovery and resolution planning. If the FSOC were to determine that Guardian is a non-bank SIFI, Guardian would become subject to certain of these enhanced prudential standards. Other regulators such as state insurance regulators may also determine to adopt new or heightened regulatory safeguards as a result of actions taken by the Federal Reserve in connection with its supervision of non-bank SIFIs. There can be no assurance that such new or enhanced regulation will not apply to Guardian.

In addition, the Dodd-Frank Act establishes the Federal Insurance Office (“FIO”) within the U.S. Department of the Treasury, which has the authority, on behalf of the United States, to participate in the negotiations of international insurance agreements with foreign regulators, as well as to collect information about the insurance industry and recommend prudential standards. While not having a general supervisory or regulatory authority over the business of insurance, the director of the FIO will perform various functions with respect to insurance, including serving as a non-voting member of FSOC and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation.

Federal agencies have been given significant discretion in connection with rulemaking pursuant to and implementation of the Dodd-Frank Act. It is unclear what impact the Trump administration’s policies and a Republican majority in the Senate will have on the Dodd-Frank Act and the resulting impact on Guardian’s business, financial condition or results of operations. Although the Democratic majority in the House of Representatives is unlikely to consider a full repeal of the Dodd-Frank Act, Guardian cannot predict whether any proposal to amend the Dodd-Frank Act will be implemented and whether it would have a material effect on its business, financial condition or operations and cannot currently identify the risks, if any, that may be posed to Guardian’s business as a result of changes to, or legislative replacements for, Dodd-Frank.

On February 3, 2017, President Trump signed an executive order directing the Secretary of the Treasury to review the extent to which current financial regulatory policy, which would include the Dodd-Frank Act, promotes the Trump administration’s financial regulatory policy aims. The Secretary’s report on asset management and insurance was issued on October 26, 2017 and recommended activities-based evaluations of systemic risk in the insurance industry rather than an entity-based approach. The report also supported primary regulation of the U.S. insurance industry by the states rather than the federal government. On November 17, 2017, the Secretary also issued a report recommending changes to FSOC’s process for non-bank SIFI designations, including prioritizing an activities-based approach instead of individual designations, and enhancing the analytical process, engagement, and transparency of the designation process. Guardian cannot predict whether any such legislation or regulatory changes will be adopted, or what impact they will have on Guardian’s business, financial condition or results of operations.

Litigation and regulatory investigations are common in the life insurance industry and may harm Guardian’s business and financial strength and reduce its profitability.

Life insurance companies and their affiliated financial services businesses have historically been subject to substantial litigation, including the risk of individual and class action law suits, resulting from claims disputes or relating to suitability, sales or underwriting practices, product design, disclosure, claims and payment procedures, administration, denial or delay of benefits and breaches of fiduciary or other duties. Most of the actions seek substantial or unspecified compensatory and punitive damages and the probability and amount of liability, if any, may remain unknown for substantial periods of time. Guardian and its subsidiaries are also subject to various regulatory inquiries from time to time, such as information requests and books and record examinations, from state and federal regulators and other authorities. Guardian is, from time to time, a plaintiff or defendant in actions arising out of its insurance business. Litigation, as well as governmental, administrative or regulatory proceedings, inquiries or investigations may harm Guardian’s business and financial strength and reduce its profitability. Moreover, even if Guardian ultimately prevails in the litigation, regulatory action or investigation, it could suffer significant harm to its reputation, which could have a material adverse effect on its business, results of operations and financial condition, including its ability to attract new customers, retain current customers and recruit and retain employees and agents.

Changes in tax laws and the interpretation thereof could adversely affect Guardian's business.

Congress has, from time to time, considered legislation that could adversely impact or change the manner of taxing the products Guardian sells and of calculating the amount of taxes paid by life insurance companies or other corporations, including Guardian. Changes to federal, state or other tax laws, or in the interpretation of applicable tax laws and regulations, could reduce Guardian's earnings and adversely affect Guardian's business, financial condition or results of operations.

The attractiveness to Guardian's customers of many of its products may be due, in part, to favorable tax treatment. Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of life insurance and annuity products. Taxes, if any, are payable generally on income attributable to a distribution under the contract for the year in which the distribution is made. Death benefits under life insurance contracts may be received free of federal income tax. Congress has, from time to time, considered legislation that could have the effect of reducing or eliminating the benefit of such income tax deferral or otherwise affect the taxation of life insurance or annuity products. As a result, demand for certain of Guardian's life insurance and annuity products that offer income tax deferral could be negatively impacted. To the extent that legislation is enacted in the future to reduce the tax deferred status of life insurance or annuity products, limit the exclusion of death benefits from income, or reduce the taxation of competing products, all life insurance companies, including Guardian, could be adversely affected. Likewise, reductions in individual tax rates could reduce the attractiveness of tax deferral to Guardian's potential customers.

Congress has from time to time considered material changes to, or a repeal of, the estate tax. Many of Guardian's products are sold to customers in order to help them meet their estate tax planning needs. To the extent that legislation is enacted in the future that would materially change the estate tax, sales of Guardian's products could be adversely affected.

Guardian files U.S. federal income tax returns along with various state and local income tax returns. From time to time, Guardian is subject to audits of its federal, state and local tax returns. Years 2011 and prior are closed for U.S. federal income tax audits. As of the date of this Offering Memorandum, Guardian is under examination by the Internal Revenue Service ("IRS") for tax years 2012-2015. There are a number of state and local governmental audits in process. While Guardian does not expect any material changes as a result of pending audits, there can be no assurance that there will not be any such adjustments in the future.

New accounting rules, changes to existing accounting rules or the granting of permitted accounting practices to competitors could have an adverse effect on Guardian's results of operations and financial condition.

Guardian is required to comply with SAP. SAP and various components of SAP (such as actuarial reserving methodologies) are subject to review by the NAIC and its task forces and committees, as well as state insurance departments, in an effort to address emerging issues and otherwise improve or alter financial reporting. Various proposals are currently, or have been previously, pending before committees and task forces of the NAIC, some of which, if enacted, could negatively affect Guardian. The NAIC has approved a new valuation manual containing a principle-based approach to the calculation of life insurance company reserves. Principle-based reserving ("PBR") is designed to better address reserving for products, including the current generation of products for which the current formulaic basis for reserve determination does not work effectively. Although the principle-based approach became effective on January 1, 2017 in the states in which it has been adopted, to be followed by a three-year phase-in period for business issued on or after this date, New York enacted legislation adopting PBR in December 2018, and, at the same time, the NYSDFS adopted a temporary regulation, to become effective January 2020, to implement PBR while it develops a final regulation.

Guardian cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect it.

In addition, the NAIC Accounting Practices and Procedures Manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. Guardian cannot predict what permitted and prescribed practices the NYSDFS may allow or

mandate in the future, nor can Guardian predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP. As of the date of this Offering Memorandum, Guardian has not requested or used any such permitted practices for the Statutory Financial Statements for the year ended December 31, 2018. Moreover, although states defer to interpretations of the insurance department of the state of domicile with respect to regulations and guidelines, neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. Guardian can give no assurance that future changes to SAP or components of SAP or the granting of permitted accounting practices to its competitors will not have a negative impact on its results of operations or financial condition.

The amount of statutory capital that Guardian has and the amount of statutory capital it must hold can vary significantly from time to time and is sensitive to a number of factors outside of its control, including equity market and credit market conditions.

Insurance regulators and the NAIC prescribe accounting standards and statutory capital and reserve requirements for Guardian and its insurance company subsidiaries. The NAIC has established regulations that provide minimum capitalization requirements based on RBC formulas for both life and property and casualty companies. The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the amount of statutory income or losses generated by Guardian (which itself is sensitive to equity market and credit market conditions), the amount of additional capital it must hold to support its business growth, changes in equity market levels, the value of certain fixed-income and equity securities in its investment portfolio, the value of certain derivative instruments that do not get hedge accounting treatment, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. Most of these factors are outside of Guardian's control. Increases in the amount of required statutory reserves reduce the statutory capital used in calculating Guardian's RBC ratios. In addition, in scenarios of equity market declines, the amount of additional statutory reserves that GIAC is required to hold for its variable annuity guarantees would increase, which would decrease GIAC's, and, therefore, Guardian's, statutory surplus.

Guardian's statutory surplus and RBC ratios have a significant influence on its financial strength and claims paying ratings, which, in turn, are important to its ability to compete effectively. To the extent that Guardian's statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, it may seek to raise additional capital. If it were not able to raise additional capital in such a scenario for any reason, any ratings downgrade that followed could have a material and adverse effect on its business, results of operations, financial condition and liquidity.

The NAIC and the International Association of Insurance Supervisors ("IAIS") continue to develop group capital calculations or group capital standards. The NAIC is developing a group capital assessment which is expected to be based on existing RBC measures. The IAIS continues to develop its global "insurance capital standard," which will serve as the base group capital standard applicable to all internationally active insurance groups. Although federal regulators and the NAIC have engaged with the IAIS in the development of its capital standards, concerns remain about how such global standards will interact with existing U.S. regulatory requirements. Guardian cannot predict what impact these proposed capital standards may have on its operations. It is possible that Guardian or its affiliates may be required to hold additional capital, which may adversely affect its ability to do business.

Guarantees embedded in GMWB riders sold with variable annuity contracts expose GIAC to certain risks.

Certain variable annuities written by GIAC contain guaranteed minimum withdrawal benefit ("GMWB") riders. These GMWB riders guarantee a minimum level of withdrawal benefits irrespective of the investment performance of the underlying accounts of the variable annuities; as a result, below a certain level, GIAC will be exposed to the difference between the investment value and the guaranteed benefits. Therefore, any decline in capital markets (including equity and debt markets), interest rates or account values may increase GIAC's exposure

to liability for benefit claims under these riders. The amount of statutory reserves related to GMWB is in part tied to the difference between the value of the underlying accounts and the guaranteed benefits. Even if GIAC is not immediately subject to guaranteed minimum withdrawal payments to annuity holders, it may be required to establish this type of reserve due to declines in capital markets or account values.

GIAC currently reinsures or attempts to hedge certain exposures to GMWB riders. A portion of GIAC's GMWB rider business (\$495 million out of \$8.9 billion total account value at December 31, 2018) is reinsured under a third-party treaty. The remainder is subject to a hedging program, using exchange traded futures contracts tied to various equity and Treasury rate indices. However, the hedge positions may not exactly offset the changes in the carrying value of the guarantees due to, among other things, the time lag between the changes in their values and corresponding changes in the hedge positions, volatility in the equity markets and derivative markets, swings in interest rates, contract holder behavior different than expected and divergence between the performance of the underlying funds and hedging indices. GIAC has a reinsurance agreement with a third-party reinsurer that reinsures 90% of various GMWB riders that were written through December 2008 and introduced prior to September 2008. That reinsurer is an admitted reinsurer in New York. The financial strength ratings of this reinsurer from S&P and Moody's are AA- and Aa3, respectively. The business not covered by the reinsurance treaty is subject to a hedging program. Beginning in September 2008, new GMWB rider forms were introduced, and the business written pursuant to these new rider forms is not subject to reinsurance, instead 100% of such business is subject to the hedging program. For a description of this hedging program and its limitations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Information about Market Risk—Hedging Programs." At December 31, 2018, the account value of all GMWB contracts was approximately \$6.6 billion before reinsurance and \$6.1 billion after reinsurance. At December 31, 2017, the before and after reinsurance account values were \$7.8 billion and \$7.2 billion, respectively. At December 31, 2016, the before and after reinsurance account values were \$7.4 billion and \$6.7 billion, respectively. In addition, the net amount at risk was \$1,358 million, \$359 million and \$653 million at December 31, 2018, 2017 and 2016, respectively.

GIAC's hedging program, using exchange traded futures contracts, does not hedge all risk arising from the riders, including risks associated with sustained volatility in capital markets and policyholder withdrawals, and there can be no assurance that GIAC's hedging program will be effective as designed to reduce the risks which Guardian does seek to hedge. The models used to guide the hedging activities are based on actuarial and capital market assumptions which are only estimates of future events. To the extent policyholder behavior, capital market developments, or other events deviate from model assumptions, this hedging program may be negatively impacted, which could materially affect GIAC's financial condition or results of operations. See "—Reinsurance may not be available, affordable, or adequate to protect Guardian against losses" and "—Counterparties to Guardian's reinsurance arrangements and other contracts may fail to perform, which could adversely affect its results of operations and financial condition."

As a mutual insurance company, Guardian has limited access to capital, and the ability of its subsidiaries to pay dividends is restricted under applicable insurance laws.

Guardian is a mutual insurance company with no capital stock and no shareholders. Consequently, it is unable to access directly the public equity markets as a means to raise capital. As of December 31, 2018, Guardian had outstanding surplus notes in the aggregate principal amount of \$1.2 billion and no other long-term indebtedness outstanding. In addition, the Issuer has issued \$1.5 billion in funding agreement-backed notes, which are secured by funding agreements issued by Guardian. Guardian does not rely on dividends from its subsidiaries to meet its operating cash flow requirements or to service its obligations under the surplus notes. For the year ended December 31, 2018, Guardian received approximately \$44 million in cash and non-cash dividends from its subsidiaries. Guardian records these dividends as net investment income. No assurances can be given that these subsidiaries will pay dividends to Guardian in the future.

Guardian has not historically relied on dividends from its subsidiaries to meet its operating cash flow requirements. Historically, Guardian has reinvested a substantial portion of its unrestricted earnings in BLICOA, FCW and GIAC. Substantially all of the statutory surplus of Guardian's life insurance subsidiaries, including BLICOA and GIAC, of approximately \$994 million, \$984 million and \$1.034 billion, at December 31, 2018, 2017 and 2016, respectively, is subject to dividend restrictions imposed by statutory authorities. Under the laws of Delaware and Massachusetts, the domiciliary states of GIAC and BLICOA, respectively, dividends in excess of

unassigned funds require regulatory approval. In addition, BLICOA and GIAC must seek regulatory approval prior to paying a dividend whose fair market value together with other dividends within the preceding twelve months exceeds the greater of (i) 10% of the insurer's policyholder surplus as of the last day of December next preceding or (ii) the net gain from operations of the insurer for the twelve-month period ending the last day of December next preceding. Based on their respective statutory basis financial results as of December 31, 2018, Guardian's life insurance subsidiaries, including BLICOA and GIAC, would have been able to pay dividends to Guardian in 2018, 2017 and 2016 of up to \$171 million, \$177 million and \$138 million, respectively without obtaining the prior approval of their applicable insurance regulators. For the years ended December 31, 2018, 2017 and 2016, Guardian received an aggregate of \$44 million, \$47 million and \$12 million, respectively, in cash and noncash dividends from its subsidiaries. Guardian can make no assurance regarding the timing or amount of dividends, if any, that may be paid by these subsidiaries to Guardian in the future. GIS and FCW are not subject to dividend restrictions imposed by statutory authorities but may pay dividends up to but not exceeding any accumulated earnings. As of December 31, 2018, FCW had accumulated earnings of \$105 million and would be able to pay a dividend of up to \$105 million in 2019. As of December 31, 2017, FCW had accumulated earnings of \$71 million and would be able to pay a dividend of up to \$71 million in 2018. As of December 31, 2016, FCW had accumulated earnings of \$44 million and would have been able to pay a dividend up to \$44 million in 2017.

In addition to restrictions on the ability of Guardian's insurance subsidiaries to pay dividends to it, if Guardian were to need access to additional capital for any reason, its ability to obtain such capital could be limited and the cost of any such capital could be significant if the securities and credit markets experience volatility or disruption. Guardian's access to additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to Guardian's industry, Guardian's credit ratings and credit capacity, as well as the possibility that lenders could develop a negative perception of Guardian's long- or short-term financial prospects. Similarly, Guardian's access to funds could be impaired if regulatory authorities or rating agencies took negative actions against Guardian, such as a ratings downgrade. If a combination of these factors were to occur, Guardian might not be able to successfully obtain additional financing, if needed. As such, Guardian could be forced to delay raising capital, or perhaps issue different types of capital than it would otherwise, less effectively deploy such capital, issue shorter tenor securities than it would prefer, or bear an unattractive cost of capital, which could decrease its profitability and significantly reduce its financial flexibility.

Guardian's reserves for future policy benefits and claims related to the company's current and future business as well as businesses Guardian may acquire in the future may prove to be inadequate.

Guardian's reserves for future policy benefits and claims may prove to be inadequate. Guardian establishes and carries, as a liability, reserves based on estimates of how much the company will need to meet policyholder obligations, including the payment of future benefits and claims. For Guardian's life insurance and annuity products, these reserves are calculated based on methodologies required by the NYSDFS for statutory reserves, using mortality tables specified by the NYSDFS, as well as minimum interest rates also specified by the NYSDFS, and contract language. Guardian also sets up reserves to meet policyholder obligations on group insurance and disability insurance. Claim reserves reflect a combination of actual experience and industry experience, as well as, where mandated, experience tables specified by state insurance departments. It cannot be exactly determined with precision the ultimate amounts that will be paid, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level assumed prior to payment of benefits or claims. Since Guardian cannot precisely determine the amount or timing of actual future benefits and claims, actual results could differ significantly from those assumed. Deviations from one or more of these estimates and assumptions could have a material adverse effect on Guardian's results of operations or financial condition. If Guardian concludes that reserves, together with future premiums, are insufficient for payments of benefits and expenses, Guardian may seek to increase premiums where it is able to do so.

Reinsurance may not be available, affordable or adequate to protect Guardian against losses.

As part of Guardian's overall risk management strategy, it purchases reinsurance for certain risks underwritten by Guardian's various business segments. While reinsurance agreements generally bind the reinsurer for the life of the business reinsured at generally fixed pricing, market conditions beyond Guardian's control determine the availability and cost of the reinsurance protection for new business. In certain circumstances, the price of reinsurance for business already reinsured may also increase. Any decrease in the amount of reinsurance will

increase Guardian's risk of loss and any increase in the cost of reinsurance will, absent a decrease in the amount of reinsurance, reduce Guardian's earnings. Accordingly, Guardian may be forced to incur additional cost for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect its ability to write future business or result in the assumption of more risk with respect to those policies Guardian issues.

Guardian reinsures its business with various reinsurers. In order to enter into a reinsurance treaty with Guardian or its subsidiaries, the reinsurer must meet various standards in terms of financial strength and ratings. Guardian reinsures its participating life business, universal life business and variable universal life business mortality risk on any face amount issued in excess of Guardian's general retention limit of \$17.5 million per life. For term insurance, Guardian coinsured between 76% and 90% of all term life insurance business on a first dollar quota share basis until May 1, 2014. Starting May 1, 2014, Guardian cedes amounts in excess of \$2 million per life of newly issued term life insurance to a pool of four reinsurers on an automatic yearly renewable term basis. Term life insurance business may also be ceded to the same four reinsurers on a facultative basis. Also, starting May 1, 2014, Guardian has a coinsurance with funds withheld reinsurance agreement, with one reinsurer, covering 90% of its level term life insurance amounts net of the excess of \$2 million retention on yearly renewable term reinsurance. See "Business of Guardian—Reinsurance."

All life insurance reinsurance treaties are covered by a pool of reinsurers. 43% of Guardian's individual life insurance face amount is reinsured as of December 31, 2018. Of the face amount reinsured, over 89% is ceded to four third-party reinsurers. The remaining percentage of the face amount reinsured is spread among a number of other companies. Some of these agreements are closed to new business. However, the reinsurance treaties covering the closed blocks of business remain in force as to these closed blocks. Group long-term disability and individual disability income treaties reinsure monthly policy benefits in excess of a specific monthly income benefit; however, individual disability income policies issued on or after January 1, 2016 are not reinsured. Variable annuity guaranteed minimum death benefits ("GMDB") riders issued through December 2009 are reinsured 100% with two reinsurers, each of which has a financial strength rating of at least AA- from S&P, while GIAC generally retains the basic return of premium ("ROP") death benefit. Variable annuity GMWB riders issued through December 2008 on riders introduced prior to September 2008 are 90% reinsured with one company. There can be no assurances that the reinsurance on the GMWB riders will be adequate to protect Guardian from losses that may adversely affect its financial condition.

Counterparties to Guardian's reinsurance arrangements and other contracts may fail to perform, which could adversely affect its results of operations and financial condition.

Guardian uses reinsurance to mitigate its risks in various circumstances. See "—Reinsurance may not be available, affordable or adequate to protect Guardian against losses." In general, reinsurance does not relieve Guardian of its direct liability to its policyholders, even when the reinsurer is liable to the cedant. Accordingly, Guardian bears credit risk with respect to its reinsurers. Guardian cannot provide assurance that its reinsurers will pay the reinsurance recoverables owed to it now or in the future or that they will pay these recoverables on a timely basis. A reinsurer's insolvency, inability or unwillingness to make payments under the terms of reinsurance agreements with Guardian could have an adverse effect on its results of operations and financial condition.

Guardian is engaged in a highly competitive business. Competitive factors may adversely affect Guardian's market share and profitability.

The life insurance industry is highly competitive. There are a large number of life insurance companies in the United States, many of which offer insurance products similar to those marketed by Guardian and may have advantages over Guardian in one or more of the competitive factors listed below. In addition to competition from within the industry, insurers are increasingly facing competition from non-traditional sources in the financial services industry, including mutual fund companies, banks, securities brokerage houses and other financial services entities. Recent industry consolidation, including acquisitions of insurance and other financial services companies in the United States by international companies, has resulted in larger competitors with strong financial resources, marketing and distribution capabilities and brand identities. Some competitors also offer a broader array of products, have more competitive pricing or, with respect to other insurers, have higher claims paying ability ratings. National

banks, which may sell annuity products of life insurers in some circumstances, also have pre-existing customer bases for financial services products.

Competitiveness in the insurance business is affected by various factors including, but not limited to, name recognition, price, financial strength ratings, size and strength of distribution force, range of product lines, product features, commission structure, product quality, servicing ability, investment performance and general reputation. There can be no assurance that Guardian will be able to compete successfully against current and future competitors or that competitive pressures faced by Guardian will not materially and adversely affect its business, operating results and financial condition. See “Business of Guardian—Commercial and Government Markets— Commercial and Government Markets Product Competition,” “Business of Guardian—Individual Markets—Insurance Products—Individual Insurance Competition.” and “Business of Guardian—Individual Markets—Individual Wealth Management and Retirement Savings— Individual Annuities Products and Services Competition.”

The life insurance industry is rapidly evolving toward the use of information technology and data in underwriting risks rather than relying on the analysis of blood and urine samples. Guardian’s competitive posture may be impacted if it does not keep pace with these changes or implements them incorrectly.

Many of Guardian’s group insurance products are underwritten annually, and, accordingly, there is a risk that group purchasers may be able to obtain more favorable terms from competitors rather than renewing their existing coverage with Guardian. The effect of competition may, as a result, adversely affect the persistency of these and other products, as well as Guardian’s ability to sell products in the future.

In addition, the investment management and securities brokerage businesses have relatively few barriers to entry and continually attract new entrants. Many of Guardian’s competitors in these businesses offer a broader array of investment products and services and are better known than Guardian as sellers of annuities and other investment products.

If Guardian is unable to attract and retain independent agents, career agents, General Agents and key personnel, its ability to compete and its revenues could suffer.

Guardian’s career agency force is the primary means by which it distributes life insurance and annuity products. In order to continue increasing life insurance and annuity sales, Guardian must attract, develop and retain those who are or can be productive career agents.

Insurance companies compete vigorously for productive agents. Guardian competes with other life insurance companies for agents primarily on the basis of its financial position, support services, compensation and product features. Such agents may promote products offered by other life insurance companies that may offer a larger variety of products than Guardian does. Guardian’s competitiveness for such agents also depends upon the long-term relationships it develops with them. In addition, securing the future of Guardian’s individual market distribution requires Guardian to continue to attract and recruit successful General Agents. If Guardian were unable to attract and retain sufficient agents or General Agents, its ability to compete and its results of operations or financial condition could be impacted.

The success of Guardian’s businesses also largely depends on its ability to attract and retain key personnel. Strong competition exists for qualified personnel, including actuaries and portfolio managers, with demonstrated ability. Inability to attract key personnel, or attract and retain additional qualified personnel, could harm Guardian’s results of operations and financial condition.

Guardian’s profitability may decline if mortality rates or persistency rates or other assumptions differ significantly from pricing expectations.

Guardian sets prices for many of its insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality, persistency (how long a contract stays in-force) and interest rates. In addition to the potential effect of natural or man-made disasters, significant changes in mortality could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population,

effectiveness of treatment for disease or disability, or other factors. In addition, Guardian could fail to accurately anticipate changes in other pricing assumptions, including changes in interest and inflation rates. Significant negative deviations in actual experience from Guardian's pricing assumptions could have a material adverse effect on the profitability of its products. Guardian's earnings are significantly influenced by the claims paid under its insurance contracts and will vary from period to period depending upon the amount of claims incurred.

Guardian's Individual Life Insurance business consists primarily of participating policies. A significant increase in death benefits could result in a reduction of the dividends paid to participating policyholders of Guardian. A reduction in these dividends could reduce Guardian's ability to compete with other issuers of participating policies.

There is only limited predictability of claims or persistency experience within any given month or year. Guardian's future experience may not match its pricing assumptions or its past results. As a result, Guardian's results of operations and financial condition could be materially adversely affected, which could prevent Guardian from making payments under the applicable Funding Agreement(s) when scheduled.

GIAC sells single premium deferred annuities ("SPDA") that have a surrender charge period of up to seven years. SPDAs were sold starting in 1996. This block has a total account value of \$218 million as of December 31, 2018. Policies sold from 1996–2011 no longer have a surrender charge and account for \$203 million of the total account value. A total of \$2 million of account value at December 31, 2018 is attributed to business which comes out of the surrender charge period in 2019 because it was written in 2012. Generally, when policies come out of the surrender charge period policyholders are more likely to withdraw their funds because they can do so without penalty. Each year, additional fixed annuities will come out of their surrender charge period. Guardian attempts to anticipate this additional lapse experience when it initially prices these products. An increase in surrenders could materially affect GIAC's financial condition or results of operations.

GIAC also sells single premium immediate annuities ("SPIA") and deferred income annuities ("DIA"). SPIAs were sold starting in 2010, and DIAs were sold starting in 2013. SPIA includes a single initial premium, and annuitization commences within the first year. DIA includes an initial premium and allows for additional premium payments between the initial premium date and annuity commencement. DIA annuitization is deferred at least 24 months from the issue date or 13 months from the last premium deposit, whichever is later. Annuitization for both products can be in the form of a life contingent annuity, a life contingent annuity with a term certain period or an annuity for a term certain. As of December 31, 2018, total statutory reserves for SPIA and DIA are \$1.7 billion and \$702 million, respectively.

Guardian has made, and expects to continue to make, strategic acquisitions, the success of which depends on numerous factors.

Guardian has acquired businesses and will continue to evaluate strategic acquisition opportunities that have the potential to support and strengthen its business. Guardian can give no assurances, however, that any acquisition opportunities will arise or, if they do, that they will be consummated, or that additional financing or capital, if needed, will be available on satisfactory terms. Guardian also cannot guarantee the success of any such acquisition. Guardian may not be able to achieve the synergies and other benefits that are expected from the integration of acquisitions as successfully or rapidly as projected, if at all. If Guardian fails to manage current and future acquisitions effectively, including failing to maintain or enhance the key business relationships and the reputations of acquired businesses, Guardian's results of operations could be adversely affected.

In addition, some of Guardian's acquired businesses have contracted with U.S., state and local governments. For this reason, any issue that compromises Guardian's relationship with governments could cause Guardian's revenue to decline. Among the key factors in maintaining Guardian's relationship with the governments it serves is its performance on contracts, the strength of its professional reputation and compliance with applicable laws and regulations. In addition, the mishandling or the perception of mishandling of sensitive or personal information, including as a result of misconduct or other improper activities by Guardian's employees or subcontractors, or a failure to maintain adequate protection against security breaches could harm Guardian's relationship with the governments it serves. Any harm to Guardian's relationship with the governments it serves could have an adverse effect on Guardian's business.

The impact of international tension between the United States and other nations, terrorist attacks and ongoing military and other actions may result in decreases in net income, revenue and assets under management and may adversely affect Guardian's investment portfolio.

The continued threat of terrorism both within the United States and abroad, the ongoing military and other actions and heightened security measures in response to these threats, and international tensions between the United States and other nations may cause disruptions to commerce, reduced economic activity and continued volatility in markets throughout the world. Such factors could affect Guardian's net income and revenue.

Guardian may also face increased death benefit claims as a result of war, terrorism or natural disaster. Although Guardian has contingency plans in place, a major terrorist act on the United States or natural disaster may materially disrupt Guardian's critical operations. Some of the assets in Guardian's investment portfolio may also be adversely affected by declines in the securities markets and economic activity as a result of these factors.

A pandemic or other catastrophic event could adversely affect Guardian's results of operations and financial condition.

A severe pandemic or catastrophic event may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. The resulting macroeconomic conditions could materially and adversely affect Guardian's cash flows, as well as the value and liquidity of its invested assets. In addition, Guardian's mortality and/or morbidity experience could be adversely affected by a pandemic or catastrophic event, resulting in a rapid and significant increase in policy benefits paid. Significant influenza pandemics have occurred in the last century, but the likelihood, timing and the severity of a future pandemic cannot be predicted.

The effectiveness of external parties, including governmental and non-governmental organizations, in combating the spread and severity of such a pandemic could have an adverse impact on the losses experienced by Guardian. Guardian may also experience operational disruptions if its employees are unable or unwilling to come to work due to a pandemic or other catastrophe. Guardian has developed contingency plans to reduce the risk of operational disruptions. Despite these measures, Guardian may still be exposed to significant losses in the event of a pandemic or other catastrophe.

A computer system failure or security breach could disrupt Guardian's business, damage its reputation and adversely impact its profitability.

Guardian relies on computer systems to conduct business, including customer service, marketing and sales activities, customer relationship management and producing financial statements. While Guardian has policies, procedures, automation and backup plans designed to prevent or limit the effect of failure, its computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, pandemics or other events beyond its control. The failure of Guardian's computer systems for any reason could disrupt its operations, result in the loss of customer business and adversely impact its profitability.

Guardian retains confidential information on its computer systems, including customer information and proprietary business information, and such information may also be stored on the systems of third parties to whom Guardian outsources certain functions or the systems of its career agents. Guardian's career agents may experience, and have experienced, breaches of their computer systems that resulted in the compromise of personally identifiable customer information. Any compromise of the security of these computer systems, including the disclosure of personally identifiable customer information, could damage Guardian's reputation, expose it to litigation, increase regulatory scrutiny and require Guardian to incur significant technical, legal and other expenses.

The area of cybersecurity has come under increased scrutiny by insurance regulators. New York's cybersecurity regulation for financial services institutions, including banking and insurance entities, that are under the jurisdiction of the NYDFS became effective on March 1, 2017. The regulation requires these entities to establish and maintain a cybersecurity program designed to protect consumers' private data and the confidentiality, integrity and availability of the licensee's information systems. The NAIC adopted the Insurance Data Security Model Law (the "Cybersecurity Model Law") on October 24, 2017, which establishes standards for data security

and for the investigation of and notification of insurance commissioners of cybersecurity events involving unauthorized access to, or the misuse of, certain nonpublic information. The Cybersecurity Model Law imposes significant new regulatory requirements intended to protect the confidentiality, integrity and availability of information systems. Its implementation will be based on adoption by state legislatures. Importantly, the Cybersecurity Model Law states that a licensee's compliance with the New York cybersecurity regulation shall constitute compliance with the Cybersecurity Model Law. Most recently, California passed its California Consumer Privacy Act of 2018 (the "Act"), which is set to become effective on January 1, 2020. Guardian continues to evaluate the impact of the Act on its business. Guardian has assessed the impact of the CCPA to its current processes and is in the process of addressing any required modifications.

Guardian may not be able to protect its intellectual property and may be subject to infringement claims.

Guardian relies on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect its intellectual property. Although Guardian uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. Guardian may have to litigate to enforce and protect its copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. Additionally, complex legal and factual determinations and evolving laws and court interpretations make the scope of protection afforded Guardian's intellectual property uncertain. The loss of intellectual property protection or the inability to secure or enforce the protection of its intellectual property assets could have a material adverse effect on its business and ability to compete.

Guardian also may be subject to costly litigation in the event that another party alleges its operations or activities infringe upon another party's intellectual property rights. Guardian may be subject to claims by third parties for breach of copyright, trademark, patent, trade secret or license usage rights. If Guardian were found to have infringed third-party intellectual property rights, Guardian could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to its customers or utilizing and benefiting therefrom, all of which could have a material adverse effect on its business, results of operations and financial condition.

Guardian is exposed to the impact of changes in interest rates on its pension funding obligations.

Guardian sponsors non-contributory defined benefit pension plans covering all eligible Guardian employees and career agents. These include tax-qualified plans, as well as nonqualified plans providing benefits to certain participants in excess of ERISA limits for qualified plans. The valuation of the defined benefit plan liabilities is sensitive to changes in interest rates. A significant decrease in interest rates has the potential to negatively impact Guardian's capital as changes in the fair value of the defined benefit plan liabilities are charged to capital.

On February 21, 2017, the Company announced a plan amendment to close the Home Office Employees' Retirement Plan to employees hired on or after January 1, 2018. Home Office employees hired on or after January 1, 2018 will be offered a new defined contribution plan.

On February 16, 2018, the Company contributed \$18.1 million to the Field Clerical Pension Plan to cover a funding shortfall in the plan. On February 20, 2018 the Company made a cash payment to purchase a group annuity contract to settle the remaining obligations to participants in the Field Clerical Pension Plan. As of December 31, 2018, the Company has no further obligation relating to the Field Clerical Pension Plan.

Certain of Guardian's administrative operations are located internationally, subjecting Guardian to various international risks and increased compliance and regulatory risks and costs.

Certain of Guardian's administrative operations are located in Canada and India and, in the future, Guardian may seek to expand its operations in those or into other countries. As a result of these operations, Guardian may be exposed to economic, operating, regulatory and political risks in those countries, such as foreign investment restrictions, substantial fluctuations in economic growth, high levels of inflation, volatile currency exchange rates and instability, including civil unrest, terrorist acts or acts of war, which could have an adverse effect

on Guardian's business, financial condition and results of operations. Further, it may prove difficult for Guardian to achieve its goals and take advantage of growth opportunities due to a lack of comprehensive market knowledge. The political or regulatory climate in the United States could also change such that it would no longer be lawful or practical for Guardian to use international operations in the manner in which they are currently conducted. If Guardian had to curtail or cease operations in India or Canada and transfer some or all of these operations to another geographic area, Guardian would incur significant transition costs as well as higher future overhead costs that could adversely affect Guardian's results of operations.

In many foreign countries, particularly in those with developing economies, it may be common to engage in business practices that are prohibited by laws and regulations applicable to Guardian, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended (the "FCPA") and similar anti-bribery laws. Any violations of the FCPA or other anti-bribery laws by Guardian, its employees, subsidiaries or local agents, could have an adverse effect on Guardian's business and reputation and result in substantial financial penalties or other sanctions.

CAPITALIZATION OF GUARDIAN

As a mutual insurance company, Guardian has no capital stock and no shareholders. Guardian’s participating policyholders generally have certain rights to receive policyholder dividends declared by the Board of Directors. Such declarations are at the full discretion of the Board of Directors. See “Financial and Accounting Matters—Policyholder Dividends and Other Experience Credits.” These policyholders also have certain rights to vote in the election of directors as provided by the laws of the State of New York. They and certain other policyholders may have rights to receive distributions in a proceeding for the rehabilitation, liquidation, conservation or dissolution of Guardian.

Guardian’s balance sheet includes its surplus and an asset value reserve (an “AVR”). The amount by which the admitted assets of Guardian exceed its liabilities is referred to as surplus. The AVR stabilizes surplus from fluctuations in the value of the investment portfolio (other than fluctuations in the value of certain fixed income investments due to interest rate changes) of Guardian.

The following table sets forth the actual capitalization of Guardian as of December 31, 2018 prepared in accordance with SAP. The AVR is included in the following table even though such reserve is shown as a liability on Guardian’s balance sheet. This treatment is consistent with the general view of the insurance industry. In addition, such reserve is included as part of total adjusted capital for risk-based capital purposes.

	As of December 31, 2018 (\$ in Millions)
Debt:	
Short-Term Debt	\$ 0
Medium Term Debt.....	0
Long-Term Debt	0
Total Debt	0
AVR	879
Surplus:	
Surplus Notes	1,198
Policyholders’ Surplus	5,974
Surplus and AVR	\$ 7,172

BUSINESS OF GUARDIAN

Founded on July 10, 1860 and incorporated in the State of New York, Guardian is the fourth largest U.S. mutual life insurance company based on statutory surplus of \$7.2 billion, \$6.7 billion and \$6.2 billion as of December 31, 2018, 2017 and 2016, respectively, according to peer data compiled by the NAIC. Guardian primarily operates in the ordinary life insurance business, but also provides, directly or through its subsidiaries, a wide range of group, disability, wealth management and retirement savings products and services, as well as investment services. The Company provides its products and services to individuals, corporations and other institutions in all 50 states of the United States and the District of Columbia. Guardian's major subsidiaries include BLICOA, FCW, GIAC and GIS. As of December 31, 2018, 2017 and 2016, Guardian had total assets of \$58.5 billion, \$55.6 billion and \$51.9 billion, respectively. As of December 31, 2018, 2017 and 2016, respectively, Guardian had total life insurance in-force of \$659.5 billion, \$628.8 billion and \$590.8 billion, respectively. For the years ended December 31, 2018, 2017 and 2016, Guardian generated total premium income of \$8.4 billion, \$8.1 billion and \$7.8 billion, respectively. For the years ended December 31, 2018, 2017 and 2016, Guardian's net gain from operations totaled \$1.4 billion, \$1.4 billion and \$1.4 billion, respectively and net income totaled \$310 million, \$423 million and \$368 million, respectively. Guardian's insurance financial strength/claims paying ability is rated AA+ by S&P, Aa2 by Moody's, AA+ by Fitch and A++ by A.M. Best. S&P, Moody's, Fitch, and A.M. Best currently report a stable outlook for Guardian's insurance financial strength/claims paying abilities rating. These ratings are of interest to policyholders, but are not ratings of the Notes offered hereby and do not reflect an evaluation of the safety and security of the Notes.

Guardian, together with its subsidiaries, is a financial services group that seeks to provide attractive value for policyholders and customers by providing a wide array of differentiated products and services, while aiming to achieve strong financial results. In pursuing this strategy, Guardian's guiding principle is to enable its customers to obtain financial success while protecting their families and businesses. To achieve this goal, Guardian focuses on developing and distributing a broad portfolio of financial products and services, maintaining what it believes to be prudent underwriting standards and rigorous expense control, and pursuing asset/liability management practices that it considers conservative.

Guardian believes that its key strengths will enable it to capitalize on a variety of opportunities in the U.S. life insurance market. These strengths include:

- *Commitment to mutual status.* This commitment allows Guardian to focus on meeting the needs of its policyholders by making long-term financial strength and stability and the payment of competitive dividends its primary objectives. As a mutual insurance company, Guardian does not have stockholders and believes that it does not experience the same short-term earnings pressures as its publicly-traded life insurance peers, permitting it to manage product development, risk and investments on a long-term economic basis.
- *Diversified product portfolio that meets a wide array of needs.* Guardian believes that the diversity of its product portfolio allows it to meet the needs of its clients, both at the individual and group level. Guardian also believes that its diversified product portfolio improves its ability to be financially successful in many different market environments by providing diversification of earnings and reducing the level of volatility in its financial results. Guardian has paid dividends to policyholders every year since 1868.
- *Industry-leading products targeted at high-quality customer base.* Guardian believes that it is a product leader in many areas where it writes business, in particular among its targeted core customer base of affluent individuals, small businesses and small business owners. Guardian's participating whole life insurance products, which have represented approximately 88% of Guardian's individual life premium income over the past five years, offer a competitive base product together with attractive riders and a competitive dividend scale, making Guardian the fourth largest writer of participating whole life premium in the industry in 2018, according to LIMRA Sales Report. In addition, Guardian's high net worth customer base has resulted in larger

average premiums per policy than most of its peers; according to the 2018 LIMRA Sales Report, Guardian's average whole life only premium per policy sold was \$10,336, while the peer group's average was \$4,083. This peer group includes Massachusetts Mutual Life Insurance Company, New York Life Insurance Company and The Northwestern Mutual Life Insurance Company. Guardian believes its term and universal life and individual disability income products are also attractive in terms of benefit features and price. Based on the 2018 LIMRA survey results, the most recent annual LIMRA survey available, Guardian's dental business ranks first in in-force PPO cases.

- *Highly productive career agent system.* Guardian's distribution model for individual products is focused on career agents, supervised by general agents and career development managers in 50 general agencies and Guardian-managed agencies. This is a critical element of Guardian's business model. Guardian's career agent system consists of over 2,500 active agents as of December 31, 2018 and enjoys one of the highest retention rates in the industry. Guardian's four-year average agent retention as of December 31, 2018 was 23% versus the overall 16% four-year average of the companies that participated in the 2017 LIMRA Agent Production and Retention Study. Guardian believes the benefits of a career agent model include the commitment of career agents to the long-term protection of their clients and the long-term financial success, financial strength and stability of Guardian, as well as the agents' commitment to their communities and the small businesses located there. The career system is supplemented by other distribution channels where appropriate for the product and market.
- *Long-term track record of growth and profitability.* Guardian has historically experienced strong operating results and has been profitable every year since 2003 based on net income. In 2018, Guardian generated total revenues of \$10.9 billion, net gain from operations of \$1.4 billion and net income of \$310 million. In addition, from 2004 to 2018, Guardian's net income and policyholder surplus increased at compound annual growth rates of approximately 0.6% and 6.0%, respectively.
- *Strong balance sheet with a conservative investment portfolio and solid levels of capitalization.* Guardian believes that it has strong financial strength and capitalization, as evidenced by its strong insurance financial strength/claims paying ability ratings from the rating agencies and its regulatory capital ratios, which historically have been in excess of the levels required by regulatory authorities. S&P, Moody's, Fitch and A.M. Best currently report a stable outlook for Guardian's financial strength rating. Guardian also believes that its investment portfolio is conservative and well-diversified. Guardian maintains a high quality fixed income portfolio, with approximately 95.3% of the securities in its bond portfolio, as of December 31, 2018, rated investment grade.
- *Strong Enterprise Risk Management execution.* Guardian believes that it has a strong risk management culture, internal controls and reporting and oversight system. Guardian employs experienced asset class specialists that actively manage credit and portfolio risk. Furthermore, Guardian maintains what it considers to be a low product risk profile with focus on participating life insurance and a conservative set of product guarantees.
- *Accomplished and deep management team.* Guardian's management team is composed of well-respected, seasoned executives with extensive experience in the insurance industry and at Guardian.

Corporate Strategy

Guardian's strategic objective is to generate growth in net income and to maintain a strong and consistent policyholder dividend policy. Guardian intends to achieve its objective by pursuing the following strategies:

- *Being the trusted mutual partner, delivering financial security how, when and where its clients prefer.* By making mutuality relevant at a personal level, Guardian focuses on solutions that fit its

clients' needs. Specific customer segments are targeted via appropriate channels leveraging technology to deliver products and service more efficiently.

- *Focus on profitable growth.* Guardian continues to pursue opportunities to drive profitable growth, including improving its products, expanding distribution and enhancing its service capabilities. Guardian has invested significant resources in expanding and strengthening its distribution system and the management team remains committed to distribution excellence to generate profitable growth for the company. This includes expansion into the worksite market, where consumers are increasingly purchasing insurance products.
- *Pursue strong risk management and underwriting standards.* Guardian believes that it has a conservative, low-risk approach to operations and underwriting and actively manages product and investment risk. Consistent with its history as a mutual insurance company, Guardian is committed to pursuing high asset quality, strong capitalization and liquidity and a conservative investment philosophy. Guardian believes it utilizes reasonably conservative underwriting practices in its insurance businesses.
- *Continue to deliver superior service.* Guardian seeks to develop and maintain long-term relationships with customers through its career agent system and sales organizations, including general agents, career agents, brokers, group sales representatives and wholesalers. Guardian believes it has established a reputation for high-quality service to its customers and distribution, and remains committed to providing the superior service that has been recognized by such organizations as J.D. Power and DALBAR.

The principal product lines of Guardian and its major subsidiaries are organized into two segments set forth below:

- *Individual Markets* products include individual life insurance and individual disability income insurance products. Individual life insurance products include participating whole life insurance, universal life insurance, term life insurance and variable universal life insurance. Individual disability income insurance products, which are sold by BLICOA, include individual disability income insurance and multi-life disability income insurance. Individual Markets also includes certain wealth management and retirement savings products, which aim to meet an individual's needs through products, sold by GIAC. These products include individual fixed and variable annuities.
- *Commercial and Government Markets* products include dental, vision, life, AD&D, short- and long-term disability, hospital indemnity, absence management administration and supplemental products such as accident, cancer and critical illness. Guardian's group business has also diversified into new areas, including dental and vision benefits for government programs. In April 2018, Guardian changed the name of its Group and Worksite Markets segment to Commercial and Government Markets.

Guardian distributes its individual products primarily through a career agent force, which consists of agencies managed by general agents, career development managers, or principal directors, consisting of career agents and brokers who sell products directly to the customer. Guardian distributes its group products through group sales representatives, brokers, benefit consultants and its career agents. As of December 2018, Guardian had over 200 group sales professionals and over 90 account managers, and over 14,900 active group brokers and benefit consultants.

The following table sets forth Guardian's and its subsidiaries' statutory selected summary financial data by main product line of business for the periods indicated. Certain of the financial information used to prepare the following table is not derived from the Statutory Financial Statements contained in this Offering Memorandum. The Statutory Financial Statements are prepared in accordance with SAP and, therefore, are presented on a parent company basis only, such that the Statutory Financial Statements do not consolidate the assets and liabilities or

results of Guardian’s subsidiaries. See “Financial and Accounting Matters—Summary of Principal Differences Between SAP and GAAP.” The following table consolidates financial information from the Statutory Financial Statements, as well as from the statutory financial information of BLICOA and GIAC and the GAAP financial information of FCW and GIS. Guardian is not the issuer of the Notes offered hereby, and none of its subsidiaries (including BLICOA, GIAC, FCW and GIS) are in any way obligated with respect to the Notes.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Premium Income:					
Individual Insurance:					
Individual Life Insurance	\$ 4,102	\$ 4,039	\$ 3,850	\$ 3,669	\$ 3,576
Individual Disability Income					
Insurance	626	601	580	558	537
Individual Annuity*	464	445	925	-	-
Group Insurance	4,093	3,914	3,769	3,474	3,146
Retirement Products and Services**	-	-	(1,893)	1,674	1,498
Other***	1,694	(8)	11	7	6
Total premium income	<u>\$ 10,979</u>	<u>\$ 8,991</u>	<u>\$ 7,242</u>	<u>\$ 9,382</u>	<u>\$ 8,763</u>
Net Investment Income:					
Individual Insurance:					
Individual Life Insurance	\$ 1,824	\$ 1,824	\$ 1,799	\$ 1,774	\$ 1,674
Funding Agreement****	49				
Individual Disability Income					
Insurance	218	218	213	191	194
Individual Annuity*	128	117	106	-	-
Group Insurance	146	152	144	166	156
Retirement Products and Services	-	-	3	95	82
Other***	120	120	104	43	44
Total investment income	<u>\$ 2,485</u>	<u>\$ 2,431</u>	<u>\$ 2,369</u>	<u>\$ 2,269</u>	<u>\$ 2,150</u>
Net Income:					
Individual Insurance:					
Individual Life Insurance	\$ (57)	\$ 76	\$ 102	\$ 251	\$ 122
Funding Agreement****	13				
Individual Disability Income					
Insurance	71	81	80	34	47
Individual Annuity*	123	11	(160)	-	-
Group Insurance	237	272	181	177	160
Retirement Products and Services	-	-	21	(34)	(2)
Other***	78	15	40	(17)	118
Total net income	<u>\$ 465</u>	<u>\$ 455</u>	<u>\$ 264</u>	<u>\$ 411</u>	<u>\$ 445</u>

*As a result of reporting changes in 2016, Individual Annuity is reported on its own line. Previously reported in Retirement Products and Services.

**2016 reflects the sale of GIAC’s 401(k) business to Ameritas via a reinsurance transaction and asset sale.

***As a result of reporting changes in 2017, Retirement Products and Services is reported as part of Other.

**** As a result of reporting changes in 2018, Funding Agreement is reported on its own line. Previously it was reported as part of “other”.

2018 Consolidated Statutory Reserves

2018 consolidated statutory reserves by main product line were: individual life insurance \$39,563 million; individual disability income insurance \$3,448 million; individual annuity \$3,664 million; group insurance \$2,109 million; and other products \$573 million.

Individual Markets

Insurance Products

Guardian's Individual Markets line of business provides a wide range of products and services through a network of general agencies, principal directors, career development managers, and affiliated career agents, independent brokers, broker-dealers and banks.

The principal products offered by the Individual Markets line of business include participating whole life insurance, universal life insurance, term life insurance, variable universal life insurance, individual disability income insurance and annuities.

Many of these products offer a range of riders that provide such benefits as waiver of premium, accidental death benefits, paid-up additions of insurance, accelerated death benefits and long-term care benefits.

Set forth below is a description of the Individual Markets line of business principal insurance products:

Whole Life. Whole life insurance is a participating product that provides guaranteed minimum death benefits and guaranteed cash values in return for periodic premium payments of a fixed amount. Guardian offers several types of whole life products, including products with premium due for the life of the insured and products with guaranteed limited payment periods. Guardian also offers survivorship whole life, a product that pays a death benefit upon the death of the second of two insureds. In 2018, 97% of the individual life products segment premium income was participating whole life insurance premium income. In 2015, Guardian began offering an Index Participation Feature for certain new sales of whole life insurance. Contractholders may elect to allocate 0 to 100% of the dividend associated with the policy's cash value of paid up additions to be based on the return of an S&P 500 index subject to a cap and a 4% guarantee.

Universal Life. Universal life insurance provides the policyholder with flexible premium payments and death benefits. Both Guardian and GIAC offer universal life products. Those sold by GIAC include secondary guarantees. Guardian and GIAC's universal life products credit premium in excess of specified sales charges to the account value of the policy, which is allocated to the fixed account backed by each company's general account. That account value includes a guaranteed principal with a minimum interest credit. The policy value is the net result of the premium payments, plus interest credits, minus expense and cost of insurance charges, minus the amount of any partial surrenders. GIAC also offers survivorship universal life, a product that insures two lives and pays a death benefit at the second death. Guardian also offers universal life insurance for the bank-owned life insurance market ("BOLI") sold in connection with corporate benefit plans, for sale to small or medium corporate purchasers for funding deferred compensation and post-retirement benefits. Sales of BOLI accounted for 0.0%, 0.3% and 0.1% of Guardian's total life insurance sales for 2018, 2017 and 2016, respectively. Guardian offers universal life products with secondary guarantees, but such products accounted for only 0.1%, 0.1% and 0.1% of sales in 2018, 2017 and 2016, respectively.

Variable Universal Life. Variable universal life insurance, issued by GIAC, provides the policyholder, within guidelines established by the terms of the policy, the ability to select and change premium levels, amounts of death benefit and investment options. GIAC credits premium in excess of specified sales charges (the "net premium") to the accumulation value of the policy. GIAC applies the net premium, as instructed by the policyholder, to a fixed rate account which is backed by GIAC's general account, or to one or more of GIAC's separate account investment options, or to an index-linked interest option. For variable universal life products, the policyholder bears the investment risk for cash values in the separate account investment options. GIAC deducts monthly charges, including the cost of insurance, mortality and expense risk charges and administrative charges from the accumulation value to which GIAC credits the net premium. There are both short term and longer term secondary guarantee options available subject to the payment of stipulated premiums. GIAC also offers variable universal life products for the corporate-owned life insurance market ("COLI") market sold in connection with corporate benefit plans, for sale to small or medium corporate purchasers for funding deferred compensation and post-retirement benefits. Currently, this product line may be purchased only by existing policyholders to insure additional employees or as additional coverage to existing employees.

Term Life. Term life insurance provides life insurance protection for a fixed period and has no cash value. Guardian offers a variety of term insurance products designed to meet varying client needs. Almost all term life insurance products allow conversion within a specified time period to one of Guardian's other permanent life insurance products.

Disability Income. Individual disability income insurance, which is sold by BLICOA, can help offset a portion of lost earnings, ensure continued retirement contributions, cover small business operating costs and facilitate partnership buy-outs when an individual becomes disabled. Individual disability income policies are typically sold to individual policyholders in single sale transactions. They are also sold to small groups of individuals through the multi-life disability income market.

Individual Markets Product Pricing and Management

Guardian seeks to price Individual Markets products to produce an appropriate return on invested capital consistent with Guardian's financial strength objectives. Guardian attempts to achieve long-term value for policyholders by competitively managing the key financial fundamentals for each product, including investment earnings, expenses, policy persistency, mortality and morbidity (the incidence and duration of disability). For participating whole life products, Guardian reflects actual experience in dividends, which generally represent premium refunds resulting from more favorable investment, mortality and expense experience than was reflected in the original policy pricing.

Individual Insurance Principal Markets, Marketing and Distribution

Sales of Guardian's Individual Markets products are primarily targeted at affluent and emerging affluent market segments including professionals, business owners, small- and mid-sized businesses, corporations, banks, principals and partners. Products are designed to solve fundamental as well as complex financial concerns, including estate planning, business succession planning and the funding of certain employee benefit plans.

As of December 31, 2018, Guardian sells its Individual Markets products primarily through 50 general agencies, Guardian-managed agencies and career development managers that oversee over 2,500 career agents. Guardian is investing substantially to enable its general agents, career development managers and career agents to run their businesses more effectively and better serve their customers. With increased competition in a deregulated financial services arena, Guardian believes that continued success requires increased distribution productivity and capacity. Guardian also serves clients through existing relationships with banks and broker-dealers, including Park Avenue Securities LLC ("PAS"), a registered broker-dealer that Guardian indirectly wholly owns. PAS also provides securities brokerage and investment management services.

Guardian has recently implemented a program to help facilitate ownership transfers in its general agencies, with the goal of ensuring smooth ownership transitions and continued success in the future for successful general agencies.

Individual Markets Underwriting

Guardian balances the risk assessment process to ensure an evaluation of relative risks that seeks profitable new business and competitive product performance. Underwriting risk represents the exposure to loss resulting from actual policy experience such as mortality or morbidity risk being worse than expected in product pricing assumptions. Guardian attempts to reduce this underwriting risk through what it believes to be reasonably conservative evaluation of the risks. Guardian also attempts to reduce this underwriting risk through the use of reinsurance, although there can be no assurances this reinsurance will mitigate the risks as planned. In addition, Guardian's reinsurers may not perform as required, or its reinsurance may otherwise be inadequate. For a description of Guardian's reinsurance, see "—Reinsurance."

Guardian's Individual Markets underwriting teams for individual life and individual disability income insurance are experienced teams, with a respective average of 19 years and 12.5 years, of experience for individual

life insurance and individual disability income insurance underwriters, respectively. Guardian believes that its approach to underwriting risk is prudent and relatively conservative.

Individual Insurance Competition

The life insurance industry is highly competitive. There are a large number of life insurance companies in the United States, many of which offer individual insurance products similar to those marketed by Guardian. In addition to competition within the industry, insurers are increasingly facing competition from non-traditional sources in the financial services industry, including mutual fund companies, banks, securities brokerage houses and other financial services entities, many of which provide alternative investment and savings vehicles for consumers. Federal legislative initiatives are affecting the financial services industry, thereby changing the environment in which Guardian competes.

Guardian competes for large life insurance sales with many other financially strong companies. The process for negotiating large sales may involve clients' advisors, consultants, attorneys and accountants. In addition, there is substantial competition for smaller sales due to the large number of companies and agents in these markets nationwide.

In the disability income market, according to the "LIMRA Disability Income Sale—U.S." survey, the five largest writers of disability insurance, including BLICOA, account for the majority of the premiums earned in the market.

Individual Wealth Management and Retirement Savings

GIAC serves the individual retirement market through its Individual Markets Division. This line of business provides financial products and programs for individuals saving for or living in retirement. In addition, many Guardian career agents are registered representatives of Guardian's broker-dealer subsidiary, PAS, and in that capacity provide wealth management services and retirement savings products to their clients.

Below is a description of GIAC's principal retirement-focused insurance products:

Variable Annuities. Variable annuities ("VAs") are individual contracts which allow for either a single premium or flexible premiums, which may be directed to a fixed account backed by the insurer's general account or among a number of separate account investment options for which the investment risk is borne by the contract holder. All VAs allow the owner at a later date to annuitize the contract to receive regular income payments for a specified time period and/or for his or her lifetime (or the lifetime of two people).

GIAC currently offers an individual VA with a B-Share contract and a C-Share contract. The B-Share contract in this series has a seven-year surrender charge period but a lower contract charge (combined M&E and administrative charges) than the C-Share product, which has no surrender charges. This series of contracts does not offer the option to purchase a living benefit rider.

Living Benefit Riders. As of February 17, 2017, GIAC no longer offers variable annuities with living benefit riders.

Fixed Annuities. GIAC's fixed deferred annuities are designed for more conservative investors and guarantee a set interest rate for a fixed period of time. GIAC currently offers a single premium deferred annuity with four-, five-, and six-year rate periods, so customers can choose a range of time periods that are best suited for their needs. The products currently offer an additional interest rate step-up of 0.10% for premiums in excess of \$100,000.

Single Premium Immediate Annuities. GIAC's immediate annuities are designed to provide the customer, in exchange for a lump sum premium payment, with a guaranteed stream of income payments set to begin no later than the beginning of the 13th month after the contract is issued and guaranteed to last for the customer's lifetime (or joint lifetime) or for a set period of time. The customer does not have access to the single premium payment other than through the stream of guaranteed payments to be provided by GIAC.

Deferred Income Annuities. GIAC's DIAs are designed to provide the customer with a stream of income payments set to begin between 24 months and 40 years after the initial premium payment and guaranteed to last for the customer's lifetime (or joint lifetime). Premium payments may be made at any time up to 13 months prior to the date that annuity payments are scheduled to begin. Each premium payment has a separate annuity payment stream, but all payment streams are aggregated when payments begin. The customer does not have access to the premium payments other than through the stream of guaranteed payments to be provided by GIAC.

At December 31, 2018, GIAC's total VA assets totaled \$9.2 billion, while fixed annuity assets totaled \$3.0 billion. In addition, Guardian continues to invest in and expand its fixed product portfolio.

Individual Annuities Principal Markets, Marketing and Distribution

GIAC's individual annuities are distributed by the Wholesale Division of PAS and offered at the retail level through selling agreements with outside registered broker-dealers, in addition to the Retail Division of PAS.

GIAC's wholesaling force focuses solely on annuities. As of December 31, 2018, the average length of industry experience of the annuity wholesaling group is over 17 years.

Individual Annuities Products and Services Competition

GIAC annuity sales are almost entirely made up of fixed annuities. There are a number of large life insurance companies that offer fixed annuity products similar to those marketed by GIAC. GIAC has designed its fixed annuity products with the aim of being competitive in the marketplace. Guardian's biggest competitors in the fixed annuity space are New York Life, Mass Mutual, Principal, and Western & Southern.

GIAC's current fixed product offerings include SPDA, SPIA and DIA. In the income annuity space (SPIA and DIA), the dominant issuers are other large mutual insurers including New York Life, MassMutual and Northwestern Mutual.

These fixed offerings complement GIAC's VA portfolio and focus on providing income benefits for its policyholders.

Commercial and Government Markets

Insurance Products

Guardian entered the group insurance business in 1957, and Guardian's current Commercial and Government Markets products provide a wide range of employee benefits in all 50 states and the District of Columbia. The products are distributed predominantly through independent brokers throughout the country.

The principal products in the Commercial and Government Markets line of business include dental, vision, life insurance, AD&D, short-term disability, long-term disability, absence management administration and supplemental health products such as accident, hospital indemnity, cancer and critical illness. All Commercial and Government Markets products are marketed on an employer funded, an employee contributory and on a voluntary (*i.e.*, employee pay all) basis. Each Commercial and Government Markets product contains a wide range of plan design variables and options to serve the varying employee benefit needs of customers and prospective customers. In addition, Guardian's group business provides dental, vision and hearing benefits for government programs.

On December 31, 2018, Guardian sold its dental support organization, which supported dental centers in California, Texas and Alabama to Western Dental Services.

Below is a description of the principal Commercial and Government Markets products:

Dental: Dental insurance is a term insurance product that covers the cost of dental services, subject to policy provisions such as co-payments, co-insurance and annual maximums. Guardian's primary dental product is a

PPO product that provides comprehensive benefits to covered individuals, especially when they seek treatment from network dentists. As of December 31, 2018, Guardian maintains a network of over 124,000 individual dentists throughout the United States. Currently, 76% of these dentists are directly contracted with Guardian and the remainder are in the network via partnerships with other dental networks. Through various state specific subsidiaries, Guardian also markets DHMO products in California, Florida, Illinois, Indiana, Michigan, Missouri, New Jersey, New York, Ohio, Colorado and Texas.

Vision: Vision insurance is a term insurance product that covers the cost of eye exams and vision aids, subject to policy provisions such as co-payments, co-insurance, and annual maximums. Guardian's primary vision product is a PPO product that provides comprehensive benefits to covered individuals, especially when they seek treatment from network providers. Guardian has partnerships with two alternative vision networks, Vision Services Plan and Davis Vision, to support the PPO product. In addition, Guardian owns the Avēsis vision network, which is used for a segment of the Company's PPO vision business.

Life Insurance: Group life insurance is a basic term product that provides a death benefit for a fixed period and has no cash value. The product typically provides extended coverage by waiving premium for disabled employees.

Accidental Death and Dismemberment: AD&D is a term product that provides a death or dismemberment benefit when the cause of the death or dismemberment is due to an accident, as opposed to a health or disease related occurrence. Since death or dismemberment caused by accident is generally less frequent than death or dismemberment caused by health or disease in the adult population covered by group benefit insurance products, the premium for this coverage is relatively low.

Short-Term Disability: Group short-term disability insurance replaces a portion of lost earnings due to disability. While Guardian offers a range of options, the typical short-term disability policy replaces 60% of income after an individual is disabled for a week. Benefits are payable as long as the individual remains disabled, up to a maximum of typically 13 or 26 weeks, depending on the product.

Long-Term Disability: Group long-term disability insurance replaces a portion of lost earnings due to disability for a longer period of time than is covered by short-term disability. While Guardian offers a range of options, the typical long-term disability policy replaces 60% of income after an individual is disabled typically for 90 or 180 days, depending on the product. Benefits are payable as long as the individual remains disabled, typically up until normal retirement age.

Critical Illness: Critical illness is a term product that provides lump sum benefits for the diagnosis of serious conditions such as cancer, heart attack, kidney failure and stroke. Guardian's critical illness plan pays benefits directly to the member and does not coordinate with any medical insurance the member may have. Critical illness is typically marketed on a voluntary basis.

Accident: Accident insurance is a term product that provides indemnity benefits upon the occurrence and treatment of accidental injuries. Guardian's accident plan pays benefits directly to the member, regardless of the cost of treatment, and does not coordinate with any medical insurance the member may have. Typical coverage includes payments to the member upon use of ambulance services, emergency room visits and hospitalization as well as diagnosis of fractures, burns and lacerations. Accident insurance is typically marketed on a voluntary basis.

Cancer: Cancer insurance is a term product that provides a lump sum benefit for the diagnosis of cancer as well as additional benefits when the member undergoes treatment. Guardian's cancer plan pays benefits directly to the member, regardless of the cost of treatment, and does not coordinate with any medical insurance the member may have. Typical coverage includes payments to the member for cancer related hospitalization, surgery, radiation and chemotherapy. Cancer insurance is typically marketed on a voluntary basis.

Hospital Indemnity: Hospital indemnity insurance is a term product that provides fixed benefit payments, regardless of the cost of treatment, for people with hospital stays, need of ambulance services and other specific medical treatments. The product serves as a supplement to an employee's medical plan.

Medical Stop Loss: Provides financial protection to employers who self-fund their medical benefit plans. In May 2018, Guardian announced that it was exiting this line of business, no longer accepting new customers and would not offer renewals. The majority of these customers (which was less than 200 customers) were terminated by the end of 2018. Guardian expects essentially no stop loss premium in 2020.

Absence Management Administration: Through its wholly owned subsidiary, The Reed Group, Guardian provides administrative services, software and content subscriptions to employers and insurance carriers to manage employee absences.

Government Programs: Through various subsidiaries, Guardian insures and/or administers dental, vision and hearing benefits for government programs, including Medicaid, CHIP and Medicare Advantage.

Group Insurance Product Pricing and Management

Guardian seeks to price each Commercial and Government Markets product to produce an appropriate return consistent with Guardian's financial objectives. Guardian's group insurance products are term insurance and the pricing factors for each product line are updated regularly and the price for each group client is periodically adjusted, typically on an annual basis, subject to client renewal. Generally, Guardian sets renewal rate increases to reflect trends in morbidity and mortality on Guardian's block of business. The majority of in-force group insurance product policies, especially dental and vision, have historically received annual rate increases. Guardian maintains what it believes to be competitively priced products by managing what it considers key fundamentals, including underwriting, expense management and claim costs.

Commercial and Government Markets Principal Markets, Marketing and Distribution

Sales of Guardian's Commercial and Government Markets products are primarily targeted to employers with two to 10,000 employees. The commercial and government product portfolio has a wide range of options to serve the needs of varying customer segments.

Guardian sells its commercial and government products primarily through independent brokers. As of December 2018, Guardian maintains a staff of over 200 group sales professionals plus over 90 account managers located in over 50 offices across the country who cultivate and manage relationships with independent brokers. As of December 2018, over 14,900 brokers have group insurance product business in force with Guardian.

In addition, Guardian maintains a group of over 240 contracted enrollers across the country. These individuals are part of the sales process and conduct employee enrollment meetings for commercial and government products that are sold on a voluntary basis.

Commercial and Government Markets Product Underwriting

Guardian balances the risk assessment process to ensure an evaluation of relative risks both at the issuance of new business as well as the annual renewal of in-force policies. Underwriting risk reflects the exposure to actual loss experience adversely deviating from product pricing assumptions, specifically morbidity and mortality assumptions. Most underwriting is at the group level, reflecting prior claim experience, group demographics and plan design parameters.

Commercial and Government Markets Product Competition

The group insurance product industry is highly competitive, with a mix of national and regional competitors that vary by product type and employer size segment. In general, dental insurance tends to have more regional competition, as the product strength is often associated with the local provider network. There are also many dental insurers that compete in multiple regions throughout the country. Group life and disability competitors tend to be more national in scope, although some tend to focus on specific employer size segments.

Guardian competes through its long-term relationships with brokers in markets throughout the country, a wide and flexible product portfolio, a large dental network and superior customer service.

Investment Management

Investment advisory services are provided to Guardian, its affiliates and various unaffiliated individual and institutional investors primarily through Guardian's investment management staff and its subsidiaries. The primary focus of investment management at Guardian is to manage the general account assets of Guardian and its subsidiaries. The invested assets of Guardian's general account have grown from \$37.7 billion at December 31, 2013 to \$53.1 billion at December 31, 2018.

Guardian's investment objectives are to (1) protect financial strength and ratings, (2) provide competitive long-term dividends and (3) execute a competitive long-term asset allocation strategy. The goal of Guardian's asset/liability management is to structure the risk/reward profile of the asset portfolio in an optimal manner relative to the liabilities. Guardian's investment strategy focuses on supporting product liabilities in light of total return, yield, liquidity, cash flow and diversification considerations. Guardian's general account investments primarily back participating whole life products. Guardian's subsidiaries also aim to match asset portfolios to relevant characteristics of the liabilities.

Guardian utilizes a wide array of investment instruments to carry out its portfolio management activities. The investment strategies Guardian uses in managing its asset portfolios are generally aimed at maximizing the long-term total rate of return.

Guardian also provides its customers access to a wide range of investment products, some of which are distributed through its subsidiary, PAS. Further, Guardian provides certain third party asset management services to institutional counterparties through subsidiaries of GIS. In the third quarter of 2016, a collateralized loan obligation special purpose vehicle ("CLO") managed by Park Avenue Institutional Advisers LLC ("PAIA"), a GIS subsidiary, issued \$406 million in equity and debt instruments, of which Guardian purchased \$43 million in equity. On November 14, 2017, the second CLO managed by PAIA issued \$456 million in equity and debt instruments, of which Guardian purchased \$42 million in equity. On August 23, 2018, the \$363 million of senior notes issued from the first CLO in the third quarter of 2016 was refinanced with \$366 million in senior notes. On November 8, 2018, the third CLO managed by PAIA issued \$404 million in equity and debt instruments, of which Guardian retained \$33 million of \$38 million in issued equity. Depending on market conditions and regulatory developments, Guardian may, in the future, make additional investments in equity, debt or subordinated debt interests issued by additional CLOs managed by PAIA.

Reinsurance

Guardian enters into reinsurance agreements with other insurance companies in the normal course of business. Total premium ceded for the years ended December 31, 2018, 2017 and 2016 was \$283 million, \$275 million and \$260 million, respectively. Premiums ceded to reinsurers are reported as a reduction of premium revenue in the Statement of Operations. The reinsurance agreements create no right or legal relationship between the reinsurer and the insured, owner or beneficiary of any insurance policy reinsured under these agreements. Guardian remains liable to the insured for the payment of benefits, and must make such payments if the reinsurer cannot meet its obligations under the reinsurance agreements.

Guardian participates in automatic reinsurance and facultative reinsurance. Automatic reinsurance is reinsurance in which the ceding company is obligated to cede, and the reinsurer is obligated to assume, risks which meet specific criteria based on the provisions of the reinsurance agreement and the ceding company's underwriting. Facultative reinsurance is reinsurance of individual risks at the option of the reinsurer and the ceding company, whether under a treaty of reinsurance or by negotiation with respect to an individual risk. The reinsurer is free to accept or reject the offerings of the ceding company, and the reinsurer may specify its own ratings or terms for the reinsurance. Automatic reinsurance can be ceded to a pool of reinsurers on a first dollar quota-share or excess of retention basis. Under first dollar quota-share arrangements the ceding company retains a certain percentage of the risk on each policy, in a given class of business, and cedes the remaining portion to a pool of reinsurers based on predetermined shares. In an excess of retention arrangement, the ceding company keeps amounts up to its maximum

capacity (full retention limit) on any one life and cedes the remaining amount to one or more reinsurers. When reinsured with more than one reinsurer, the amounts in excess of the ceding company's capacity may be ceded based on an alphabetic split (depending on the insured's last name) or based on predetermined shares.

Guardian's maximum retention limit for participating whole life, universal life and variable universal life is generally \$17.5 million of death benefit per life. Any death benefit in excess of the \$15 million retention is ceded to a pool of reinsurers under excess of retention arrangements. Guardian may selectively retain a greater amount of coverage on two individuals in connection with joint and last survivorship policies. For term policies, Guardian's maximum retention is currently \$2 million of death benefit per life. Any death benefit in excess of the \$2 million retention is ceded to a pool of reinsurers under excess of retention arrangements. Guardian coinsured between 76% and 90% of all term life insurance business on a first dollar quota share basis until May 1, 2014. Starting May 1, 2014, Guardian cedes amounts in excess of \$2 million per life of newly issued term life insurance to a pool of four reinsurers on an automatic yearly renewable term basis. Term life insurance business may also be ceded to the same four reinsurers on a facultative basis. Also, beginning May 1, 2014, Guardian has coinsurance with funds withheld under a reinsurance agreement with one reinsurer, covering 90% of Guardian's level term life insurance amounts net of the excess of \$2 million dollar on term life retention yearly renewable term reinsurance.

As of December 31, 2018, Guardian ceded \$168 billion of individual participating whole life, individual universal life and individual term death benefit to reinsurers, or 43% of the total individual life death benefit coverage in-force. Claims ceded to reinsurers are reported as a reduction of benefits payments to policyholders and beneficiaries in the Statement of Operations.

Historically, BLICOA's retention on individual disability income policy monthly benefits has varied from \$4,000 to \$10,000 per life on policies issued before January 1, 2016. Amounts in excess of BLICOA's retention limits were reinsured with third-party with reinsurers. For policies issued on or after January 1, 2016, BLICOA has ceased external reinsurance of new business and BLICOA and Guardian retain 100% of the risk.

Reinsurance with Unaffiliated Companies

For all participating whole life policies, universal life policies with secondary guarantees and universal life policies without secondary guarantees policies, issued directly by Guardian through June 1, 2015, where Guardian's retention is exceeded, Guardian has an automatic yearly renewable term reinsurance program involving four reinsurers. Business may also be ceded to the four automatic reinsurers on a facultative basis. Guardian has one reinsurance program open to new business for facultative cases and cases that exceed the automatic binding limits that may also be submitted facultatively on a case-by-case basis to the reinsurer. Guardian cedes approximately 10% of its participating whole life, universal life with secondary guarantee and universal life without secondary guarantee life insurance face amounts under these programs. Guardian also has a yearly renewable term first dollar quota-share program under which Guardian cedes 90% of universal life policies without secondary guarantee, issued directly by Guardian since June 1, 2015, to two reinsurers.

Guardian coinsured between 76% and 90% of all term life insurance business on a first dollar quota share basis until May 1, 2014. Starting May 1, 2014, Guardian cedes amounts in excess of \$2 million per life of newly issued term life insurance to a pool of four reinsurers on an automatic yearly renewable term basis. Term life insurance business may also be ceded to the same four reinsurers on a facultative basis. Also, beginning May 1, 2014, Guardian has coinsurance with funds withheld under a reinsurance agreement, with one reinsurer, covering 90% of Guardian's level term life insurance amounts net of the excess of \$2 million retention.

Guardian has various yearly renewable term first dollar quota-share agreements under which Guardian cedes 90% of all secondary guarantee universal life premiums that it had assumed from GIAC to third-party reinsurers. Guardian also maintains several reinsurance programs covering life insurance products that Guardian no longer writes.

As of December 31, 2018, Guardian's two largest reinsurance counterparties accounted for 52% and 19%, respectively, of the outstanding individual life insurance reinsurance in-force by face amount. As of December 31, 2018, measured by reference to reserve credit taken by Guardian, Guardian's five largest life reinsurers had financial

strength ratings from S&P of A or better. These five companies represented more than 93% of Guardian's ceded life reinsurance reserve credit.

BLICOA coinsured 90% of all term life insurance business on a first dollar quota share basis with five third-party reinsurers, with the exception of 5 and 10-year term policies issued between April 1, 2004 and June 30, 2005, which were 76.5% coinsured. All of these agreements covering BLICOA's term life insurance are closed to new business.

BLICOA has reinsurance on its individual disability income policies issued prior to January 1, 2016 for the monthly benefits payable in excess of a specified dollar amount per individual insured. Individual disability income policies issued on or after January 1, 2016 are not reinsured. In addition, BLICOA maintains an excess of loss reinsurance arrangement on a closed block of non-cancelable disability income insurance.

BLICOA has coinsurance treaties with two companies to which it cedes 90% of the risks for all of its long-term care products. BLICOA stopped writing long-term care insurance in 2012 and as of December 31, 2018 has \$49 million of direct premium in-force (\$5 million net premium).

Guardian has some reinsurance on selected group products. Group life and AD&D insurance are reinsured for excess of a certain face amount on an individual certificate. Group long-term disability has reinsurance for monthly benefits over a certain dollar amount on an individual certificate.

GIAC reinsures certain living and death benefit guarantees within its VA business. GIAC has a coinsurance agreement with one reinsurer covering 90% of various GMWB riders that were written through December 2008 and introduced prior to September 2008. That reinsurer is an admitted reinsurer in New York. The financial strength ratings of this reinsurer from S&P and Moody's are AA- and Aa3, respectively. The reinsurance treaty remains in effect for any business written on these riders including any renewal premiums received through present day. The remainder of the business written on these riders is subject to a hedging program. Beginning in September 2008, new GMWB rider forms were introduced, and the business written pursuant to these new rider forms is not subject to reinsurance, instead 100% of such business is subject to the hedging program. For a description of this hedging program and its limitations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Information about Market Risk—Hedging Programs." At December 31, 2018, the account value of all GMWB contracts was approximately \$6.6 billion before reinsurance and \$6.1 billion after reinsurance. At December 31, 2017, the account value of all GMWB contracts was approximately \$7.8 billion before reinsurance and \$7.2 billion after reinsurance. At December 31, 2016, the before and after reinsurance account values were \$7.4 billion and \$6.7 billion, respectively. In addition, the net amount at risk was \$1,358 million, \$359 million and \$653 million at December 31, 2018, 2017 and 2016, respectively. In addition, the account value associated with the GMIB risk is 100% reinsured with a third party reinsurer, representing \$52 million, \$67 million and \$75 million of related account value as of December 31, 2018, 2017 and 2016, respectively. GIAC provides a death benefit if the contract value is less than the guaranteed minimum amount. Most base contracts include a death benefit based on a ROP. Additionally, GIAC offers elective death benefit riders that may provide a greater death benefit than the ROP amount. All GMDB annual benefit elective riders issued through December 2009 are 100% reinsured with two third party reinsurers, each of which has a financial strength rating of at least AA- from S&P. To the extent the GMDB annual benefit elective rider was purchased, ROP benefit risk was also reinsured with such third-party reinsurers for certain issue years. Depending on the type of GMDB annual death benefit rider purchased, the ROP portion of coverage ended for contracts issued either on or after April 2005 or January 2009, and such risks are no longer reinsured.

GIAC sold its 401(k) business to Ameritas in a combined asset sale and reinsurance transaction that closed on September 1, 2016. The parties entered into a Reinsurance and Administration Agreement (the "Agreement") providing for coinsurance of all general account liabilities associated with the business and modified coinsurance of the liabilities associated with the Separate Accounts (i.e., 401(k) contributions made by plan sponsors and plan participants). The initial general account coinsurance premium was \$150 million while the initial Separate Account modified coinsurance premium was \$3.2 billion. This Agreement also provides for an assumption/novation to Ameritas of each customer contract associated with the 401(k) business beginning 24 months following closing, and provides for administration by Ameritas of the reinsured business. Ameritas bears all economic risk for this business as of September 1, 2016. During 2018, GIAC completed novation of certain Group 401(k) contracts with Ameritas

through assumption reinsurance, which included separate account liabilities of \$2.5 billion and general account liabilities of \$57 million.

Prices on reinsurance can, subject to treaty terms on notification, be increased on both yearly renewable term and coinsurance business. Guardian's treaties generally require a six-month advance notice to change prices. Although reinsurers have historically tended to prospectively increase rates on yearly renewable term agreements or decrease allowances under coinsurance treaties, which results in a less favorable financial result for the ceding company, reinsurers can increase rates on both a prospective and retrospective basis. Although unusual, a reinsurer may notify a company that subject to the notification period, it will not accept any new business at any price. More typically, a reinsurer will notify a company that after a certain date, given appropriate notice, either yearly renewable term rates or coinsurance allowances will change for any new business under the treaty. If this situation were to occur for either existing or new business, Guardian has the right to find other reinsurers and renegotiate the treaty, either with the existing reinsurers or with new parties. There are no guarantees that rates charged by reinsurers will not increase in the future, either for new or existing business.

Reinsurance with Affiliates

Guardian and third parties enter into coinsurance, modified coinsurance and yearly renewable term agreements with GIAC to provide for reinsurance of selected GIAC VA contracts, group 401(k) plans and group life and individual life policies. Under the terms of the modified coinsurance agreements with GIAC, reserves ceded to the reinsured business and corresponding assets held by GIAC amounted to \$510 million as of December 31, 2018. The reinsurance contracts do not relieve GIAC of its primary obligation for policyholder benefits. Failure of reinsurers to honor their obligations could result in losses to GIAC; consequently, GIAC evaluates the financial condition of its reinsurers in order to minimize its exposure to losses from reinsurer insolvencies. Guardian also has a first dollar quota-share coinsurance/modified coinsurance and subsequent first dollar quota-share yearly renewable term agreement with GIAC whereby Guardian assumes 90% of the risks on certain variable life and variable universal life policies sold by GIAC.

Guardian has two coinsurance treaties in effect with BLICOA: (1) effective concurrently since the creation of BLICOA in 2001, Guardian cedes 100% of its direct individual disability business to BLICOA; and (2) effective as of January 1, 2013, Guardian assumes 80% of BLICOA's net individual disability business which includes the business ceded to BLICOA in the treaty referenced in clause (1) above, as well as business written directly by BLICOA.

Guardian also has a quota-share coinsurance/modified coinsurance agreement with BLICOA whereby Guardian assumed the risk on certain universal life policies sold by BLICOA. Guardian assumes the excess of BLICOA's retention on certain universal life policies on a yearly renewable term basis. Guardian has a quota-share coinsurance agreement with BLICOA whereby Guardian assumed 5–10% of the risk on certain term life policies sold by BLICOA as a participant in BLICOA's term reinsurance pool. All lines covered by the agreements with BLICOA are closed to new business.

Legal Proceedings

Guardian is involved in litigation arising in and out of the normal course of business, which seek both compensatory and punitive damages. Guardian is not currently litigating nor is it aware of any pending legal actions or allegations that should reasonably give rise to a materially adverse impact to its financial position or liquidity. However, the outcome of litigation cannot be foreseen with certainty.

Guardian is subject to governmental and administrative proceedings and regulatory inquiries, examinations and investigations in the ordinary course of its business. Guardian has cooperated with these regulatory agencies and has responded to information requests and comments.

These examinations, inquiries and investigations have included industry-wide reviews of abandoned property and escheatment issues, illustrations and replacements of life insurance and annuities, underwriting practices involving prescription drug use or social media presence, and the standards of conduct in the sale of life

insurance and annuities. In connection with certain of these matters, Guardian has been contacted by the SEC, FINRA, the NYSDFS, the New York Attorney General and other regulatory authorities.

Guardian believes that it is reasonable to expect that regulatory inquiries, examinations and investigations into the financial services industry will continue for the foreseeable future. It is the opinion of management that the ultimate resolution of these matters will not materially impact Guardian's financial position or liquidity. The outcome of a particular matter may be material to Guardian's operating results for a particular period depending upon, among other things, the size of the matter and level of Guardian's income for the period.

Regulation

Insurance Regulation Generally. Guardian, NAIC number 64246, is licensed to transact its insurance business in, and is subject to regulation and supervision by, all 50 states of the United States and the District of Columbia. Guardian and its insurance subsidiaries are licensed, regulated and supervised in all jurisdictions where they conduct insurance business. The extent of such regulation varies. However, most jurisdictions have laws and regulations requiring the licensing of insurers and their agents and setting standards of solvency, reserves, reinsurance, capital adequacy and business conduct to be maintained by licensed insurance companies, and may regulate withdrawal from certain markets. In addition, statutes and regulations usually require the approval of policy forms and, for certain lines of insurance, the approval of rates. Such statutes and regulations in certain states also prescribe the permitted types and concentration of investments. Guardian, along with each of its insurance subsidiaries, is required to file detailed annual financial statements with supervisory agencies in each of the jurisdictions in which Guardian or such insurance subsidiary does business and its operations and accounts are subject to periodic examination by such authorities. Guardian's operations and accounts are also subject to examination by such agencies. The primary purpose of this insurance industry regulation is to protect policyholders, not holders of any securities. Guardian is also subject to federal and state laws and regulations affecting the conduct of Guardian's businesses.

The New York Insurance Law limits the sales commissions and certain other marketing expenses that may be incurred in connection with the sale of individual life insurance policies and annuity contracts issued in any state by Guardian, GIAC and BLICOA. Some group insurance products also have restrictions on commissions, although the restrictions are more limited in nature. The NYSDFS requires the filing of information on agent compensation program structure and amounts on an annual basis.

The NAIC, as well as certain state regulators, are currently considering implementing regulations that would apply an impartial conduct standard to recommendations made in connection with certain annuities and, in the case of New York, life insurance policies. In particular, on July 18, 2018, the NYSDFS issued a final version of amended Regulation 187, which adopts a "best interest" standard for the sale of life insurance and annuity products in New York. The regulation generally requires a consumer's best interest, and not the financial interests of a producer or insurer, to influence a producer's recommendation as to which life insurance or annuity product a consumer should purchase. In addition, the amendments to Regulation 187 impose a best interest standard on certain consumer in-force transactions. These amendments to Regulation 187 will become effective for annuity products on August 1, 2019 and for life insurance products on February 1, 2020. Guardian is continuing to assess the impact of the regulation on its business. The regulation, when implemented, may have adverse effects on Guardian's business, results of operations and financial condition. In November 2018, the three primary agent groups in New York launched a legal challenge against the NYSDFS over the adoption of amended Regulation 187. It is not possible to predict whether this challenge will be successful.

State insurance regulatory authorities and other state enforcement agencies may from time to time make inquiries regarding Guardian's compliance with laws and regulations regarding the conduct of its insurance business. Guardian and its subsidiaries endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted. Based upon regulatory inquiries that have been made, it is Guardian's opinion that any regulatory proceedings which might be initiated following such inquiries are not likely to have a material adverse effect on Guardian's financial position or results of operations.

Holding Company Regulation. Guardian is subject to the New York Insurance Law governing insurance companies and their subsidiaries and affiliates, in particular, Article 17 of the New York Insurance Law. That article

places certain restrictions on transactions between Guardian and its subsidiaries and other affiliates. In addition, the NYSDFS requires reports and notifications of transactions involving Guardian and its subsidiaries and other affiliates. Some of these transactions are subject to prior approval by the NYSDFS.

Guardian's insurance subsidiaries are subject to regulation under the insurance holding company laws of various jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require each controlled insurance company to register with state regulatory authorities and to file with those authorities certain reports, including information concerning their capital structure, ownership, financial condition, certain intercompany transactions and general business operations and, where applicable requirements have been adopted, reports on the enterprise risk management and governance of Guardian.

The New York Insurance Law and the regulations thereunder also restrict the aggregate amount of investments Guardian may make in non-life insurance subsidiaries and provide for periodic reporting on all of its subsidiaries.

Risk Management and ORSA. The NAIC's Risk Management and Own Risk and Solvency Assessment Model Act, or the "ORSA Model Act," requires insurers that exceed specified premium thresholds to maintain a framework for managing the risks associated with their entire holding company group, including non-insurance companies. In addition, at least annually, the insurer must prepare a summary report, or the "ORSA Report," regarding its internal assessment of risk management and capital adequacy for the entire holding company group. ORSA Reports are filed on a confidential basis with the insurance holding company group's lead regulator and made available to other domiciliary regulators within the holding company group. Guardian filed its latest ORSA Report in October 2018.

Unclaimed Property Laws. Guardian is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements.

Guaranty Funds. All 50 states of the United States and the District of Columbia have insurance guaranty fund laws requiring insurance companies doing business within those jurisdictions to participate in guaranty associations. Guaranty associations are organized to cover, subject to limits, contractual obligations under insurance policies and certificates issued under group insurance policies, issued by impaired or insolvent life insurance companies. These associations levy assessments, up to prescribed limits, on each member insurer doing business in a particular state on the basis of their proportionate share of the premiums written by all member insurers in the lines of business in which the impaired or insolvent insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets, usually over a period of years. Assessments levied against Guardian by guaranty associations during each of the past five years have not been material. While Guardian cannot accurately predict the amount of future assessments, Guardian believes that assessments with respect to other pending insurance company impairments and insolvencies will not have a material adverse effect on Guardian's financial position or results of operations.

Policy and Contract Reserve Sufficiency Analysis. Under the New York Insurance Law, Guardian is required to conduct annually an analysis of the sufficiency of all life insurance and annuity statutory reserves. Each year Guardian must submit an opinion of a qualified actuary that states that Guardian's statutory reserves, when considered in light of the assets held with respect to such reserves, make good and sufficient provision for Guardian's associated contractual obligations and related expenses. If reserves are viewed as being inadequate, Guardian must set up additional reserves by moving funds from surplus. As part of Guardian's 2018 statutory annual statement, Guardian provided an actuarial opinion without qualifications regarding these reserve requirements as of December 31, 2018.

Risk-Based Capital. Section 1322 of the New York Insurance Law requires that New York-domiciled life insurers report their RBC based on a formula calculated by applying factors to various asset, premium and reserve items. The formula takes into account the risk characteristics of the insurer, including asset risk, insurance risk, interest rate risk and business risk. Section 1322 imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on the NYSDFS as to the use and publication of RBC data.

Section 1322 gives the Superintendent explicit regulatory authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not exceed certain RBC levels. As of December 31, 2018, Guardian's total adjusted capital was in excess of each RBC level that might require Guardian to take remedial action.

BLICOA and GIAC are also subject to RBC requirements. Certain FCW subsidiaries are insurance entities subject to RBC requirements, while FCW itself, not being an insurer, is not. As of December 31, 2018, the total adjusted capital of each of BLICOA, GIAC and the relevant FCW subsidiaries was in excess of each RBC level that might require BLICOA, GIAC or a relevant FCW subsidiary to take some remedial action.

Statutory Examinations. As part of their routine regulatory oversight process, state insurance departments conduct periodic detailed examinations of the books, records and accounts of insurers domiciled in their states. These examinations are generally conducted in cooperation with the departments of two or three other states under guidelines promulgated by the NAIC. The NYSDFS last completed its statutory examination of Guardian for the four-year period ending December 31, 2013 and issued a final report on exam findings on June 19, 2015.

Various state insurance departments also periodically examine non-domestic insurance companies conducting business in their states, including Guardian and its insurance subsidiaries. The purpose of these periodic examinations is to evaluate the companies' compliance with state insurance laws and regulations and to determine if operations are consistent with the public interest of the policyholders resident in the state conducting the examination.

NAIC Ratios. On the basis of statutory financial statements filed by life insurance companies with state insurance regulators, the NAIC calculates annually 12 financial ratios to assist state insurance regulators in monitoring the financial condition of life insurers. State insurance regulators review this statistical report, which is available to the public, together with an analytical report, prepared by and available only to state insurance regulators, to identify insurance companies that appear to require immediate regulatory attention. A "usual range" of results for each ratio is used as a benchmark. In general, departure from the "usual range" on four or more of the ratios can lead to inquiries from individual state insurance departments. Guardian had no ratios outside the "usual range" in 2018 and 2017.

Surplus and Capital. The New York Insurance Law requires Guardian to maintain at least \$150,000 in surplus. In addition to this minimum, there are also risk-based capital requirements, as discussed above. Guardian and its insurance subsidiaries are subject to the supervision of the regulators in each jurisdiction in which they are licensed to transact business. These regulators have discretionary authority, in connection with the continued licensing of Guardian or any of these insurance subsidiaries, to limit or prohibit its sales to policyholders if such regulators determine that any such insurer has not maintained the minimum surplus or capital required or that such insurer's further transaction of business would be hazardous to policyholders.

Policyholder Dividend Requirements. New York Insurance Law Section 4219 limits the amount of surplus attributable to participating business that a domestic life insurance company may accumulate. Guardian is in compliance with that limit. Guardian distributes amounts of divisible surplus annually in the form of dividends on Guardian's participating policies in accordance with dividend scales approved annually by Guardian's Board of Directors.

Regulation of Investments. Guardian and each of its insurance subsidiaries is subject to state laws and regulations that require diversification of its investment portfolios and limit the amount of investments in certain asset categories, such as below-investment-grade fixed income securities, equity real estate, mortgages, other equity investments, foreign investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus, and, in most instances, require divestiture. Guardian believes its investments and those of each of its insurance subsidiaries comply with all such laws and regulations.

New York Insurance Regulation 210. On March 19, 2018, Insurance Regulation 210 became effective in New York. This regulation establishes standards for the determination and any readjustment of non-guaranteed elements ("NGEs") that may vary at the insurer's discretion for life insurance policies and annuity contracts

delivered or issued for delivery in New York State. The regulation requires insurers to notify policyholders at least 60 days prior to any adverse change in NGEs and, with respect to life insurance policies, to notify the NYSDFS at least 120 days prior to any such changes. In addition, the regulation requires insurers to file annually with the NYSDFS to inform the NYSDFS of any adverse changes in the current scale of NGEs of any existing policy that occurred in the prior calendar year.

Federal Income Taxation. Congress has, from time to time, considered legislation that could adversely impact the manner of taxing the products Guardian sells and of calculating the amount of taxes paid by life insurance companies or other corporations, including Guardian. Changes to federal, state or other tax laws, or in the interpretation of applicable tax laws and regulations, could reduce Guardian's earnings and adversely affect Guardian's business, financial condition or results of operations.

The attractiveness to Guardian's customers of many of its products may be due, in part, to favorable tax treatment. Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of life insurance and annuity products. Taxes, if any, are payable generally on income attributable to a distribution under the contract for the year in which the distribution is made. Death benefits under life insurance contracts may be received free of federal income tax. Congress has, from time to time, considered legislation that could have the effect of reducing or eliminating the benefit of such income tax deferral or otherwise affect the taxation of life insurance or annuity products. As a result, demand for certain of Guardian's life insurance and annuity products that offer income tax deferral could be negatively impacted. To the extent that legislation is enacted in the future to reduce the tax deferred status of life insurance or annuity products, limit the exclusion of death benefits from income, or reduce the taxation of competing products, all life insurance companies, including Guardian, could be adversely affected. Likewise, reductions in individual tax rates could reduce the attractiveness of tax deferral to Guardian's potential customers.

Congress has from time to time, considered material changes to the estate tax. Many of Guardian's products are sold to customers in order to help them meet their estate tax planning needs. To the extent that legislation is enacted in the future that would materially change the estate tax, sales of Guardian's products could be adversely affected.

See "Risk Factors—Risk Factors Related to Guardian—Changes in tax laws and the interpretation thereof could adversely affect Guardian's business."

Securities Laws. Certain of Guardian's direct and indirect subsidiaries and certain policies and contracts offered by them, are subject to various forms of regulation under the federal securities laws administered by the SEC, state securities laws and FINRA rules. Certain of Guardian's direct and indirect subsidiaries, such as PAS and Park Avenue Institutional Advisers LLC ("PAIA"), are investment advisers registered under the Investment Advisers Act of 1940, as amended. In addition, PAS is a broker-dealer with the SEC under the Exchange Act, and is a member of, and subject to regulation by, FINRA.

In addition, certain separate accounts of GIAC related to its variable insurance products and a variety of mutual funds advised or subadvised by PAIA are registered under the Investment Company Act of 1940, as amended. The separate account interests under the variable products issued through these registered separate accounts and shares offered by these registered mutual funds are registered under the Securities Act.

Federal and state securities regulatory authorities, state attorneys general and FINRA from time to time make inquiries regarding compliance by Guardian and its subsidiaries with securities and other laws and regulations regarding the conduct of their securities businesses. Guardian endeavors to respond to such inquiries in an appropriate way and to take corrective action if warranted.

These laws and regulations are primarily intended to benefit investors in the securities markets and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws and regulations. In such event, the possible regulatory sanctions include the suspension of individual employees or associates, limitations on the activities in which the regulated entity may engage, suspension or revocation of an investment adviser's or broker-dealer's registration as an adviser or broker-dealer, censure and fines. Guardian's direct and indirect subsidiaries may also be subject to

similar laws and regulations in the states in which they provide investment advisory services, offer the products described above, or conduct other securities-related activities.

Federal Insurance Initiatives and Legislation. Although the federal government has not directly regulated the insurance business, federal initiatives often have an impact on Guardian's life insurance business. Current and proposed measures that may significantly affect the insurance business generally include proposals to create an optional federal charter for insurers, limitations on anti-trust immunity, minimum solvency requirements, and other proposals at the federal level to streamline state insurance regulatory processes. Guardian cannot predict whether these proposals will be adopted, or, if adopted, the impact, if any, such proposals could have on Guardian's business, results of operation or financial condition. At the present time, Guardian does not know of any federal legislative initiatives that, if enacted, would adversely impact its business, results of operations or financial condition. See "Risk Factors—Risk Factors Related to Guardian. Guardian is subject to extensive regulation, which restricts its operations and imposes compliance costs" and "Risk Factors—Risk Factors Related to Guardian—The Dodd-Frank Act and certain other potential changes in federal laws and regulations may adversely affect Guardian's business, results of operations and financial condition."

In July 2010, Congress passed, and President Obama signed, the Dodd-Frank Act. Policy and rule-making conducted after the enactment of the Dodd-Frank Act has changed and will continue to significantly change financial regulation. The Dodd-Frank Act establishes a general framework for systemic regulation that has imposed and will impose mandatory clearing, exchange trading and margin requirements on many derivatives transactions. Although regulations with respect to swaps and other derivatives that are regulated by the Commodity Futures Trading Commission (the "CFTC") have been largely implemented, final implementation for Guardian of requirements relating to initial margining of swaps is expected to go into effect in September 2020. Regulations for security-based swaps, which are regulated by the SEC, have been largely adopted but not yet implemented. These regulations differ in many respects from those adopted by the CFTC, the prudential regulators and regulators in the EU. As a result, it is possible that implementation of SEC regulations could adversely impact Guardian's positions in security-based swaps, such as credit default swaps and equity swaps.

Beginning in September 2020, Guardian will be required to post initial margin to its derivatives counterparties in respect to its swaps positions depending on the size of the swaps books of the broader Guardian group and the applicable threshold established by counterparties. Initial margin positing is required if the Guardian and its affiliated have "material swaps exposure." Under the rules, this requires average daily aggregate notional exposure to uncleared swaps, uncleared security-based swaps, foreign exchange forwards and foreign exchange swaps for specified prior period in excess of \$8 billion. Guardian expects that the requirements will be applicable to it. In addition, eligible margin for initial margin for swaps, like that for variation margin, is restricted to cash and liquid securities (such as U.S. government securities, government-sponsored enterprise debt securities, certain sovereign debt and specified corporate debt, listed equities and funds).

To the extent that Guardian's swaps or security-based swaps counterparty collects initial margin from it, Guardian may request that the derivatives counterparty segregate all such initial margin at a custodian. If Guardian does not request segregation, the custodian or counterparty may commingle such assets or collateral with the custodian's or counterparty's own assets or collateral, and in the event of the bankruptcy or insolvency of the custodian or counterparty, such assets and collateral may be subject to the conflicting claims of the creditors of the relevant custodian or counterparty, which may result in a loss to Guardian.

Guardian currently posts variation margin to and collects variation margin from counterparties to swaps subject to regulation by the CFTC, U.S. prudential regulators and authorities in the European Union (the "EU").

In addition, where Guardian enters into certain swaps that are subject to mandatory clearing, Guardian will be required to execute such swaps on a registered exchange or trading platform.

Further, where Guardian enters into a swap with non-U.S. counterparties in the EU, the regulations of the home or resident country of such counterparty generally apply regulatory requirements with respect to such swap that are similar to those adopted by the CFTC and the prudential regulators pursuant to the Dodd-Frank Act. The European Market Infrastructure Regulation ("EMIR"), like the CFTC regulations in effect in the U.S., requires

reporting of derivatives and various risk mitigation techniques to be applied to derivatives entered into by parties that are subject to the jurisdiction of EMIR.

The Dodd-Frank Act also established an FSOC which has authority to designate non-bank financial companies as non-bank SIFIs thereby subjecting them to enhanced prudential standards and supervision by the Federal Reserve. The prudential standards for non-bank SIFIs include enhanced RBC requirements, leverage limits, liquidity requirements, single counterparty exposure limits, governance requirements for risk management, stress test requirements, special debt-to-equity limits for certain companies, early remediation procedures and recovery and resolution planning. On October 26, 2017, the Secretary of the Treasury issued a report on asset management and insurance that recommended activities-based evaluations of systemic risk in the insurance industry rather than an entity-based approach. The report also supported primary regulation of the U.S. insurance industry by the states rather than the federal government. On November 17, 2017, the Secretary also issued a report recommending changes to FSOC's process for non-bank SIFI designations, including prioritizing an activities-based approach instead of individual designations, and enhancing the analytical process, engagement and transparency of the designation process. If the FSOC were to determine that Guardian is a non-bank SIFI, Guardian would become subject to certain of these enhanced prudential standards. Other regulators such as state insurance regulators may also determine to adopt new or heightened regulatory safeguards as a result of actions taken by the Federal Reserve in connection with its supervision of non-bank SIFIs. There can be no assurance that such new or enhanced regulation will not apply to Guardian.

In addition, the Dodd-Frank Act established the FIO within the U.S. Department of the Treasury, which has the authority, on behalf of the United States, to participate in the negotiations of international insurance agreements with foreign regulators, as well as to collect information about the insurance industry and recommend prudential standards. While not having a general supervisory or regulatory authority over the business of insurance, the director of the FIO will perform various functions with respect to insurance, including serving as a non-voting member of FSOC and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation.

Federal agencies have been given significant discretion in connection with rulemaking pursuant to and implementation of the Dodd-Frank Act. Additionally, it is unclear what impact the Trump administration's policies and a Republican majority in the Senate will have on the Dodd-Frank Act and the resulting impact on Guardian's business, financial condition or results of operations. Although the Democratic majority in the House of Representatives is unlikely to consider a full repeal of the Dodd-Frank Act, Guardian cannot predict whether any proposal to amend the Dodd-Frank Act will be implemented and whether it would have a material effect on its business, financial condition or operations and cannot currently identify the risks, if any, that may be posed to Guardian's business as a result of changes to, or legislative replacements for, Dodd-Frank. Guardian cannot predict whether any such legislation or regulatory changes will be adopted, or what impact they will have on Guardian's business, financial condition or results of operations.

Federal legislation and administrative policies in other areas, including employee benefit plan regulation and individual retirement account regulation, federal taxation and securities regulation, could significantly affect the insurance industry and the costs faced by its participants.

USA PATRIOT Act. Title III of the USA PATRIOT Act of 2001 (the "PATRIOT Act") amends the Money Laundering Control Act of 1986 and the Bank Secrecy Act to expand Anti-Money Laundering ("AML") and financial transparency laws applicable to financial services companies, including some categories of insurance companies. The PATRIOT Act, among other things, seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism, money laundering or other illegal activities. To the extent required by applicable laws and regulations, Guardian and certain of its subsidiaries that are deemed "financial institutions" under the PATRIOT Act have adopted anti-money laundering programs that include policies, procedures and controls to detect and prevent money laundering, designate a compliance officer to oversee the program, provide for on-going employee training, and ensure periodic independent testing of the program. Guardian's AML programs, to the extent required, also establish and enforce customer identification programs and provide for the monitoring and the reporting to the Treasury of certain suspicious transactions.

Pension Legislative Developments. On September 27, 2010, President Obama signed the Small Business Jobs Act of 2010 (“SBJA”). SBJA focuses mainly on credits for small businesses but has a major pension provision which permits participants to transfer money from a pre-tax account to a Roth account within a “qualified plan.”

On July 6, 2012, President Obama signed the Moving Ahead for Progress in the 21st Century Act (“MAP-21”) which, among other things, affects pension funding by changing the mechanism for determining interest rates to be used for funding pension plans; it also increased pension benefit guaranty corporation (“PBG”) premiums.

The Supreme Court in *United States v. Windsor* (2013) found that Section 3 of the Defense of Marriage Act (“DOMA”), which provides that the word “marriage” means only a legal union between one man and one woman as husband and wife, and the word “spouse” refers only to a person of the opposite sex who is a husband or a wife is unconstitutional because it violates the principles of equal protection.

The impact of any of the above may have a positive impact on the demand for retirement vehicles.

ERISA Considerations. Until December 31, 2016, Guardian and its subsidiaries issued certain investment products and services to employee benefit plans governed by ERISA, including group annuity contracts and funding agreements designed to fund tax-qualified retirement plans such as 401(k), profit-sharing and other participant directed plans, as well as defined benefit plans. This block of business was purchased by Ameritas Life Insurance Corp. (Ameritas) under an Asset Purchase Agreement entered into by a Guardian subsidiary and Ameritas on September 1, 2016. Pursuant to that Asset Purchase Agreement and other ancillary agreements between the parties, Ameritas has undertaken to novate these group annuity contracts and funding agreements and will assume the obligations and liabilities associated with them. As of March 2019, the majority of these contracts and agreements have been novated to Ameritas. ERISA provides (among other requirements) standards of conduct for employee benefit plan fiduciaries, including investment managers and investment advisers with respect to the assets of such plans, and holds fiduciaries liable if they fail to satisfy fiduciary standards of conduct. Generally, Guardian and its subsidiaries have maintained policies and procedures that are intended to limit the circumstances in which Guardian or any of its subsidiaries could be deemed a fiduciary with respect to plans governed by ERISA, or to the extent that they may be deemed to have such fiduciary status, to ensure compliance with applicable ERISA requirements.

The U.S. Department of Labor (the “DOL”) issued regulations that largely were applicable in 2017 that expanded the definition of “investment advice” and required an advisor to meet an impartial or “best interests” standard, but the regulations were formally vacated by the U.S. Court of Appeals for the Fifth Circuit in 2018. The Court of Appeals decision also vacated certain DOL amendments to prohibited transaction exemptions. The DOL has announced that it plans to issue revised fiduciary investment advice regulations in September 2019. At this time, we cannot predict what form those regulations may take or their potential impact on us.

Annuity contracts and funding agreements that were issued prior to December 31, 2016 by Guardian’s insurance subsidiaries may include a “fixed option” that accrues interest and is backed by the general account of the insurance subsidiary. In 1993, the United States Supreme Court issued an opinion in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* (“Harris Trust”), holding that certain contract holder funds held by John Hancock Mutual Life Insurance Company in its general account under a participating group annuity contract were “plan assets,” and therefore subject to ERISA’s fiduciary provisions. However, under Section 401(b)(2) of ERISA, if an insurance company issues a guaranteed benefit policy to a plan, the assets of the plan are deemed to include the policy, but do not, solely by reason of the issuance of the policy, include any assets of the insurance company. Section 401(b)(2)(B) of ERISA defines the term “guaranteed benefit policy” to mean an insurance policy or contract to the extent such policy or contract provides for benefits the amount of which is guaranteed by the insurer. Guardian’s insurance subsidiaries intend that the “fixed option” component of their annuity contracts and funding agreements qualify as guaranteed benefit policies as defined by Section 401(b)(2)(B) as further interpreted by court decisions and the DOL.

Certain lawsuits have been brought under ERISA by employer sponsors of tax-qualified retirement plans investing through group annuity contracts that offer a selection of variable investment options funded by mutual funds. Plaintiffs have alleged, inter alia, that the insurance company defendants are fiduciaries with respect to plans, and as fiduciaries, the insurance company defendants breached their fiduciary duties and engaged in prohibited

transactions by receiving certain compensation from mutual funds as a result of plan investments through the annuity contracts. The ultimate impact of the case law in this area remains uncertain. Although group variable contracts and funding agreements issued to retirement plans by Guardian's insurance subsidiaries have some features that may be similar to the features of group annuity contracts that are the subject of this litigation, neither Guardian nor any of its insurance subsidiaries are aware that similar litigation is threatened or has been filed involving any group annuity contracts or funding agreements issued by the insurance subsidiaries. Guardian and its insurance subsidiaries are continuing to monitor whether legal developments resulting from these lawsuits warrant new or different compliance policies and procedures for this line of business.

Environmental Considerations. As an owner and operator of real property, Guardian is subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is the risk that there may be potential environmental liabilities and costs in connection with any required remediation of such properties. Guardian routinely conducts environmental assessments for real estate Guardian is acquiring for investment and before taking title to real property through securing mortgages Guardian holds. In addition, certain federal and state laws have provisions that can protect a mortgage lender, such as Guardian or BLICOA, from environmental liability to governmental entities in connection with properties acquired by foreclosure, if the mortgage lender observes the required procedures under those laws and otherwise meets the legal criteria for these protections. Based on these environmental assessments, Guardian believes that any costs associated with compliance with environmental laws and regulations or any remediation of such properties would not have a material adverse effect on Guardian's financial position or results of operations.

Guardian, and certain of its subsidiaries, hold equity stakes in entities that could potentially be subject to environmental liabilities. Guardian believes, based on its assessment of the businesses and properties of these entities and Guardian's level of involvement in the operation and management of such entities, Guardian would not be subject to any material environmental liabilities with respect to these investments. However, unexpected environmental liabilities can arise.

International Operations

Guardian performs select operational functions in several locations in India through its Guardian India subsidiary (formerly Data Telesis). Functions performed include data entry, new business processing, billing, call center and scheduling. Guardian India provides services to Guardian and its affiliates, but no outside parties.

Properties

In July 2017 Guardian sold two owned buildings located in Bethlehem, Pennsylvania on approximately 31 acres, comprising a portion of Guardian's Northeast Regional Office campus. Guardian leased back the data center portion of these buildings, covering approximately 10,000 rentable square feet, through December 31, 2018. After exiting this site in December 2018 Guardian's Bethlehem campus now consists of one leased property totaling 281,745 rentable square feet and Guardian's annual rental obligation under this lease is approximately \$5.0 million.

Guardian owns and occupies a 100,000 square foot building located on 40.9 acres in Appleton, Wisconsin, the site of Guardian's Midwest Regional Office. Annual operating expenses for this facility are approximately \$1.1 million. In addition, Guardian owns a 136,000 square foot building in Pittsfield, Massachusetts located on 45.9 acres, occupied entirely by Guardian's wholly owned subsidiary, BLICOA. Annual operating expenses for this facility are approximately \$1.0 million.

Guardian leases 842,164 rentable square feet in New York, New York, which is the current site of Guardian's Corporate Headquarters, and occupies 509,134 rentable square feet while the remaining 330,030 rentable square feet is occupied by subtenants. This lease expires September 30, 2019. Guardian's remaining rental obligation under this lease is approximately \$20.3 million, while Guardian receives approximately \$13.4 million annually in subtenant rent. In January 2017, Guardian exercised its option to purchase this facility at the expiration of the lease for a fixed price. During 2017, Guardian entered into a contract with a third party, pursuant to which Guardian agreed to sell its Corporate Headquarters to the third party following Guardian's acquisition of the property in 2019. Guardian has entered into a sublease agreement for 148,318 rentable square feet at 10 Hudson Yards in New York, New York for the relocation of its Corporate Headquarters with an associated rent

commencement date of February 1, 2019. The term of the sublease is through June 29, 2036 and the average annual rental obligation will be approximately \$14.9 million. Guardian has relocated a subset of employees from its current New York Headquarters building to a new leased facility at Bell Works (101 Crawfords Corner Road) in Holmdel, New Jersey. Guardian has entered into a lease agreement at Bell Works for 91,319 rentable square feet through December 31, 2032 and the average annual rent obligation is approximately \$2.5 million.

Guardian also has 54 leases totaling 367,328 rentable square feet for its corporate-owned sales operations, satellite corporate operations and subsidiary operations. Such leases typically have terms of 3 to 5 years with renewal options. Guardian's annual rental obligations under these leases are approximately \$11.1 million. Guardian sold the majority of its leased dental center sites effective December 31, 2018. Guardian remains as the tenant under 3 dental center leases totaling 62,634 rentable square feet, which typically have terms of 5 to 7 years with renewal options. Guardian's annual rental obligation under these leases is approximately \$1.6 million.

Guardian also has 7 Reed Group leased locations comprising 209,000 rentable square feet, with annual rental obligations of approximately \$4.2 million. In addition, Guardian has executed leases for 4 Guardian India locations comprising of 150,000 rentable square feet with annual rental obligations of approximately \$2.6 million. Guardian India also owns a 17,642 rentable square foot suite in Chennai and annual operating expenses for this facility are approximately \$0.2 million.

Guardian has also signed 11 leases totaling 76,061 rentable square feet on behalf of its agency operations (for those that have not yet become General Agents). Such leases typically have terms of 3 to 5 years with renewal options. Guardian's annual rental obligations under these leases are approximately \$2.0 million.

Guardian believes that such owned and leased properties are suitable and adequate for Guardian's current business operations.

Employees and Agents

As of January 1, 2019, Guardian and its subsidiaries employed approximately 9,556 people. In addition, as of January 1, 2019, over 2,500 full-time career agents are engaged in the sale of Guardian's products. Approximately 42 entities have selling and servicing agreements for GIAC annuities (including PAS) and 956 broker-dealer entities have servicing agreements for GIAC annuities. Guardian believes that its employee relations are generally good.

Other Information

Guardian may from time to time make certain information available on its website at www.guardianlife.com/about-guardian/financial-highlights. **The information contained on or connected to Guardian's website is not a part of this Offering Memorandum, and you should not rely on any such information in making your decision whether to purchase Notes.**

FINANCIAL AND ACCOUNTING MATTERS

The historical financial information included in this Offering Memorandum has been prepared in conformity with the statutory accounting practices prescribed by the NYSDFS.

Summary of Principal Differences Between SAP and GAAP

SAP is different in some respects from financial statements prepared in accordance with GAAP. The more significant differences between SAP and GAAP are that, under SAP, (1) costs related to acquiring business, principally commissions and certain policy issue expenses, are charged to income in the year incurred; (2) life insurance and annuity reserves are based on statutory mortality and interest requirements, without consideration of withdrawals and company experience; (3) life insurance enterprises are required to establish a formula-based AVR by a direct charge to surplus to offset potential investment losses; (4) realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the interest maintenance reserve (“IMR”) and amortized into investment income over the remaining life of the investment sold; (5) bonds are carried principally at amortized cost; (6) certain reinsurance transactions are accounted for as reinsurance for statutory purposes and as financing transactions under GAAP, and assets and liabilities are reported net of reinsurance for statutory purposes and gross of reinsurance for GAAP; (7) certain “non-admitted assets” (furniture and office equipment, leasehold improvements, capitalized internally developed non-operating system software and prepaid pension costs) must be excluded under statutory reporting through a charge to surplus; (8) investments in common stock of Guardian’s wholly owned and majority owned subsidiaries are accounted for using the equity method, where earnings of such subsidiaries are recognized in surplus; only when dividends are distributed is income recognized; (9) gross deferred tax assets changes in deferred tax assets and deferred tax liabilities, except those allocated to changes in unrealized gains and losses, are recognized as a separate component of surplus; (10) deferred tax assets not meeting certain criteria are non-admitted; (11) investments in real estate joint ventures, where Guardian has a controlling financial interest, are accounted for using the equity method for statutory purposes and consolidated under GAAP; and (12) if in the aggregate, Guardian has a net negative cash balance, it is reported as a negative asset for statutory purposes and recorded as a liability under GAAP.

Investment Reserves

In compliance with SAP, Guardian maintains both an AVR and an IMR. The AVR is intended to stabilize policyholders’ surplus against market fluctuations in the value of equities and credit related declines in the value of bonds, mortgage loans, public equity, private equity and real estate investments. The level of the AVR is based on both the type of investment and its credit rating. In addition, the reserves required for similar investments, for example, fixed maturity securities, differ according to the credit ratings of the investments, which are based upon ratings established periodically by the Securities Valuation Office of the NAIC. Guardian, in keeping with the New York Insurance Law and SAP, includes the reserve when determining its total adjusted capital for risk-based capital purposes. Changes in the AVR are recorded directly to surplus. The IMR defers net after-tax realized capital gains (losses) which result from changes in the overall level of interest rates for fixed income investments and amortizes these net capital gains (losses) into income over the remaining stated life of the investments sold. Guardian uses the group method of calculating the IMR. The IMR is not treated under SAP as part of the total adjusted capital for risk-based capital purposes. Net realized after-tax capital (losses)/gains of (\$156) million, \$166 million and \$212 million as of December 31, 2018, 2017 and 2016, respectively, were transferred out/deferred into the IMR. Amortization of the IMR into net investment income amounted to \$74 million in 2018, \$99 million in 2017 and \$122 million in 2016.

Realized investment gains and losses are reported in income based upon specific identification of securities sold. Realized losses include valuation adjustments for other-than-temporary declines in investments. Unrealized investment gains and losses on financial instruments carried at fair value represent changes in the reported fair value and are recorded directly to surplus.

Policyholder Dividends and Other Experience Credits

Guardian determines the amount of dividends payable to eligible participating policyholders. These dividends have the effect of reducing the cost of insurance to policyholders and should be distinguished from the

dividends paid on shares of capital stock by other types of business corporations or by stock life insurance companies. Policies on which such dividends may be payable are referred to as eligible participating policies; policies on which such dividends are not payable are referred to as non-participating policies. However, for some participating policies where no dividends are anticipated to be paid and for nonparticipating policies, adjustments may be made to non-guaranteed premiums, policy credits and charges to reflect changes to actual mortality, investment results and expenses.

Divisible surplus in excess of the amount Guardian's Board of Directors determines to be necessary to meet its policy obligations (reserves) and contingencies (such as worsening mortality or economic conditions) and to operate and grow its business is distributed in the form of dividends on Guardian's eligible participating policies. The amount and allocation of that distribution is at the discretion of the Board of Directors. The determination of the dividend scale is made after review of actual experience and reflects the traditional three-factor approach, considering dividend interest rate, mortality and expense. For further information concerning statutory policyholder dividend requirements, see "Business of Guardian—Regulation." Guardian's Board of Directors receives the dividend scale report and recommendation from Guardian's Chief Actuary at its regular November Board meeting. The Board has an opportunity to review the report, ask questions of the Chief Actuary, and request additional information. It is the Board's responsibility to approve the following year's dividend scale. Once Board approval is received, Guardian implements the scale for the following year and all policy illustrations reflect the new scale.

Reserves for Policy Benefits

SAP prescribes methods for valuing obligations under in-force policies and contracts. Those valuations are reflected in the "Reserves for policy benefits" line of the financial statements. Changes in reserves for policy benefits are generally charged against earnings in the income statement. Statutes, regulations and actuarial professional standards require Guardian to analyze the sufficiency of these reserves, using various interest rate scenarios in the context of statutory accounting practices on an annual basis.

For a discussion of Policy Reserves, see "—Critical Accounting Policies—Reserves for policy benefits."

Separate Accounts

Guardian does not sell products which require separate account assets or liabilities. Any such products are sold by GIAC. Separate account assets and liabilities represent segregated funds administered and invested by GIAC for the benefit of individual and group variable annuity, variable life, and other insurance used by policyholders to meet specific insurance and investment objectives. Separate account assets consist principally of marketable securities reported at fair value and are not available to satisfy liabilities that arise from any other business of GIAC. GIAC receives administrative and investment advisory fees from these accounts.

Separate accounts reflect two categories of risk assumption: non-guaranteed separate accounts, for which the policyholder assumes the investment risk; and guaranteed separate accounts, for which GIAC contractually guarantees either a minimum return or minimum account value to the policyholder. Premium income, benefits and expenses of the separate accounts are included in GIAC's Statutory Statements of Income. Investment income and realized and unrealized capital gains and losses on the assets of separate accounts accrue to policyholders and, accordingly, are not recorded in the Statutory Statements of Income.

GIAC may transfer investments from the general account to seed separate accounts. Investments transferred to separate accounts are transferred at fair market value on the date the transaction occurs. Gains related to the transfer are deferred to the extent that GIAC maintains a proportionate interest in the separate account. The deferred gain is recognized as GIAC's ownership decreases or when the separate account sells the underlying asset during the normal course of business. Losses associated with these transfers are recognized immediately.

Accounting for Employee Benefit Plans

The Company sponsors non-contributory defined benefit pension plans covering all eligible employees. These include tax-qualified plans, as well as nonqualified plans that provide benefits to certain participants in excess

of ERISA limits for qualified plans. The Company's policy is to fund the obligations of qualified plans in accordance with ERISA requirements.

In addition to pension benefits, the Company provides certain health care, dental and life insurance benefits ("post-retirement benefits") for retired employees. Substantially all of the employees and representatives may become eligible for these benefits if they reach retirement age while working for the Company.

In accordance with NAIC SAP, the costs associated with these required benefits are expensed over the period that the participant provides services to the Company, including recognition of assets and liabilities based on the funded status of the related plans. Pension assets are then non-admitted and thereby excluded from surplus.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the statutory financial statements, and the reported amounts of revenues and expenses during those reporting periods. The most significant estimates include those used in determining the carrying values of investments and derivatives, the amount of investment valuation reserves on mortgage loans, other-than-temporary impairments and reserves for policy benefits. Future events, including but not limited to changes in the levels of mortality, morbidity, interest rates, persistency, asset valuations and asset defaults, could cause actual results to differ from the estimates used in the statutory financial statements. Although some variability is inherent in these estimates, management believes the amounts presented are appropriate.

For a complete discussion of accounting policies and practices, see the notes to the Statutory Financial Statements included in the Offering Memorandum.

Carrying Values of Investments and Derivatives. Investments are valued in accordance with methods prescribed by the Securities Valuation Office of the NAIC ("SVO"). Guardian obtains the fair value of financial instruments held in its portfolio from a number of sources, which are measured at fair value, as described in the Statutory Financial Statements. These sources include published market quotes for active market exchange traded instruments, third-party pricing vendors, investment banks which are lead market makers in certain markets and broker quotes. Guardian also uses internal valuation models that use market observable inputs when available and Guardian derived inputs when external inputs are not available or deemed to be inaccurate.

Bonds are stated principally at amortized cost with bond premiums and discounts amortized using the scientific interest method. Those bonds which are rated 6 by the NAIC are reported at the lower of amortized cost or fair value. Mortgage-backed bonds are carried at amortized cost using the interest method considering anticipated prepayments at the date of purchase. Significant changes in future anticipated cash flows from the original purchase assumptions are accounted for using the retrospective adjustment method with Public Securities Association standard prepayment rates. Guardian 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. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from issuers or broker-dealers through information services or internal estimates and are believed to be consistent with current interest rates and the economic environment.

Preferred stocks which are rated 4, 5 or 6 by the SVO are stated at the lower of cost or fair value.

Common stocks of unaffiliated companies are stated at fair value, which is based on quoted market prices. For common stocks without quoted market prices, fair value is estimated using independent pricing services or internally developed pricing models. Investments in subsidiaries and affiliates are included in common stocks and are valued at equity in the underlying net assets. Undistributed earnings or losses of subsidiaries and unrealized appreciation or depreciation on common stocks are reflected as unrealized capital gains and losses directly in surplus.

Mortgage loans are valued at amortized cost. Valuation reserves are established for potential declines in the value of the mortgage loans. Fair value is determined based upon the present value of the scheduled future cash flows of each loan based on the average term to maturity discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for a similar quality mortgage.

Real estate, which Guardian has the intent to hold for the production of income, and real estate occupied by Guardian are carried at cost, less any valuation adjustment, encumbrances and accumulated depreciation of buildings and other improvements using a straight line method over the estimated useful life of the improvements. Depreciation expense is included in net investment income.

Derivative financial instruments for hedged assets and liabilities, which include those used in the equity hedging program, are carried at estimated fair value, which is based primarily upon quotations obtained from independent sources. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Information about Market Risk—Hedging Programs.” Changes in the fair value of these open hedge positions are recorded as unrealized capital gains and losses in surplus. Gains and losses realized on the termination, closing, expiration or assignment of contracts are recorded as realized capital gains and losses. Amounts receivable and payable are accrued.

Investment Valuation Reserves on Mortgage Loans. When, based upon current information and events, it is probable that Guardian will be unable to collect all amounts of interest and principal due according to the contractual terms of the mortgage loan agreement, a valuation allowance is established for the excess of the carrying value of the mortgage loan over its fair value. Collectability and estimated recoveries are assessed on a loan-by-loan basis considering all events and conditions relevant to the loan. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available, as changes occur in the market or as negotiations with the borrowing entity evolve. Changes to the valuation allowance are recorded as unrealized capital losses in surplus.

Other-than-Temporary Impairments. The carrying values of bonds, mortgage-backed and asset-backed securities are written down to fair value when a decline in value is considered to be other-than-temporary. Guardian considers the following factors in the evaluation of whether a non-interest related decline in value is other-than-temporary: (a) the financial condition and near-term prospects of the issuer; (b) the likelihood that Guardian will be able to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition; (c) Guardian’s ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; and (d) the period and degree to which the market value has been below cost. Guardian considers the following factors in the evaluation of whether an interest related decline in value is other-than-temporary: (a) Guardian’s near term intent to sell; (b) Guardian’s contractual and regulatory obligations; and (c) Guardian’s ability to hold the investment until anticipated recovery of the cost of the investment. Guardian conducts a semi-annual management review of all bonds including those in default, not-in-good standing or valued below 80% of cost. Guardian also considers other qualitative and quantitative factors in determining the existence of other-than-temporary impairments including, but not limited to, unrealized loss trend analysis and significant short-term changes in value. If the impairment is other-than-temporary, a direct write-down is recognized in realized capital losses and a new cost basis is established.

The cost basis of common stocks is adjusted for impairments deemed to be other-than-temporary. Guardian considers the following factors in the evaluation of whether a decline in value is other-than-temporary: (a) the financial condition and near-term prospects of the issuer; (b) Guardian’s ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; and (c) the period and degree to which the market value has been below cost. Guardian conducts a semi-annual management review of issuers whose common stock is not-in-good standing or valued below 80% of cost. Guardian also considers other qualitative and quantitative factors in determining the existence of other-than-temporary impairments including, but not limited to, unrealized loss trend analysis and significant short-term changes. If the impairment is other-than-temporary, a direct write-down to fair value is recognized in realized capital losses and a new cost basis is established.

For mortgage loans, when an event occurs resulting in an impairment that is other-than-temporary, a direct write-down is recognized in realized capital losses and a new cost basis is established. An impairment is deemed other-than-temporary when foreclosure proceedings or other procedures leading to the acquisition of the collateral

are initiated, the acquisition of the collateral is probable and a reasonable estimate of the collateral value has been determined.

For real estate, depreciated cost is adjusted for impairments whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable, with the impairment being included in realized capital losses.

For partnerships and limited liability companies, when it appears probable that Guardian will be unable to recover the outstanding net capital contributed (cost) of an investment, or there is evidence indicating an inability of the investee to sustain earnings to justify the cost of the investment, an other-than-temporary impairment is recognized in realized capital losses for the excess of the cost over the estimated fair value of the investment. The estimated fair value is determined by assessing the value of the partnership or limited liability companies underlying assets, cash flow, current financial condition and other market factors. Distributions not deemed to be a return of capital are recorded in net investment income when received provided there are undistributed earnings in the partnerships or limited liability companies.

Reserves for policy benefits. Policyholders' reserves provide amounts adequate to discharge estimated future obligations in excess of estimated future premium on policies in-force. The reserves are established using actuarial methods based on mortality and morbidity experience tables and valuation interest rates prescribed by the NYSDFS. Actual future experience will differ from assumptions used to determine these reserves.

Reserves for life insurance contracts are developed using accepted actuarial methods computed principally on the Net Level Premium Method, the New Jersey Reserve Method, and the Commissioners' Reserve Valuation Method bases using the American Experience and the 1941, 1958, 1980 and 2001 Commissioners' Standard Ordinary mortality tables with assumed interest rates. Reserve methods, mortality tables and assumed interest rates vary with issue year generations of contracts. Reserves for disability riders associated with life contracts are calculated using morbidity rates from the 1952 Period 2 Intercompany Disability Table.

Individual disability income insurance policy reserves are generally calculated using the two-year preliminary term, net level premium and fixed net premium methods, and actuarially accepted morbidity tables, using the 1964 Commissioners' Disability Table and the 1985 Commissioners' Individual Disability Table A with assumed interest rates in accordance with applicable statutes and regulations.

Disabled life claim reserves are generally calculated using actuarially accepted methodologies and actuarially accepted morbidity tables, using 1985 Commissioners' Individual Disability Tables A and C modified with factors to generate reserves that are more conservative, with assumed interest rates in accordance with applicable statutes and regulations.

Unpaid claims and claim expense reserves are related to disability and long-term care claims with long-tail payouts. Unpaid disability claim liabilities are projected based on the most recent disability payment paid prior to the valuation date. Claim expense reserves are based on an analysis of the unit expenses related to the processing and examination of new and ongoing claims. Interest accrued on reserves is calculated by applying NAIC prescribed interest rates to the average reserves by incurrual year.

Tabular interest, tabular less actual reserves released and tabular cost for all life and annuity contracts and supplementary contracts involving life contingencies are determined in accordance with NAIC Annual Statement Instructions. Traditional life and term products use a formula that applies a weighted-average interest rate determined from a seriatim valuation file to the mean average reserves. Universal life, variable life, group life insurance, annuity, and supplemental contracts use a formula which applies a weighted-average credited rate to the mean account value.

Guardian waives deduction of deferred fractional premium at death, and returns any portion of the final premium beyond the date of death. Reserves are computed using continuous functions to reflect these practices. The larger of legally computed reserves and cash surrender values on a policy-by-policy basis are held as liabilities.

The same reserve methods applied to standard policies are used for the substandard reserve calculations that are based on a substandard mortality rate (a multiple of standard reserve tables).

Reserves for group life waiver and long-term disability (“LTD”) reported claims are determined on a seriatim basis. Life waiver of premium reserves are determined using the 1970 Inter-company Group Life Disability Table for claimants disabled prior to 2009 and the 2005 Group Term Life Waiver Table for claimants disabled on or after January 1, 2009; interest rates are 4.0% for claims incurred in 2012 or earlier and 3.5% for claims incurred in 2013 or later.

The LTD reserves for approved claims are determined using either Table 95a (claims incurred in 2016 or earlier) or 2012 GLTD Table (claims incurred in 2017 or later) for the first 24 months of disability and the 1987 Commissioners’ Group Disability Table thereafter; interest rates vary by the year the claim was incurred, ranging from 2.75% to 5.0%. Group short-term disability, vision and dental claims incurred but not yet reported reserves are estimated based on Guardian’s historical experience. Group reserves include reasonable allowances for potential adverse deviation.

Guardian had total life insurance in-force of \$659.5 billion, \$628.8 billion and \$590.8 billion as of December 31, 2018, 2017 and 2016, respectively. Of this total, Guardian had \$15 billion, \$14 billion and \$14 billion of life insurance in-force as of December 31, 2018, 2017 and 2016, respectively, for which the gross premium income was less than the net premium income according to the standard valuation set by the NYSDFS. The gross premium income is less than the net premium income needed to establish the reserves because the statutory reserves must use industry standard mortality tables, while the gross premium income calculated by pricing uses mortality tables that reflect both Guardian’s experience and the transfer of mortality risk to reinsurers.

Certain individual VA products issued by GIAC offer GMDBs and, on or before March 31, 2017 guaranteed living benefits (“VAGLB”). The primary types of VAGLBs offered by Guardian on or before March 31, 2017, were GMWBs. Certain individual VA products issued by GIAC in the past offered GMIBs and guarantee minimum accumulation benefits (“GMABs”). As of February 17, 2017, GIAC no longer offers VAGLB.

GMWB riders provide the VA contract holder with a guarantee that a minimum amount will be available for withdrawal annually for life regardless of the contract value. The liability for GMWBs is included in policyholders’ reserves and the related change in this liability is included in change in policyholders’ reserves. GIAC has a reinsurance agreement with a third-party reinsurer that reinsures 90% of various GMWB riders that were written through December 2008 and introduced prior to September 2008. That reinsurer is an admitted reinsurer in New York. The financial strength ratings of this reinsurer from S&P and Moody’s are AA- and Aa3, respectively. The reinsurance treaty remains in effect for any business written on these riders including any renewal premiums received through the date hereof. The remainder of the business written on these riders is subject to a hedging program. Beginning in September 2008, new GMWB rider forms were introduced, and the business written pursuant to these new rider forms is not subject to reinsurance, instead 100% of such business is subject to the hedging program. For a description of this hedging program and its limitations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Information about Market Risk—Hedging Programs.” At December 31, 2018, the account value of all GMWB contracts was approximately \$6.6 billion before reinsurance and \$6.1 after reinsurance. At December 31, 2017, the account value of all GMWB contracts was approximately \$7.8 billion before reinsurance and \$7.2 billion after reinsurance. At December 31, 2016, the account values were \$7.4 billion and \$6.7 billion, respectively before and after reinsurance. In addition, the net amount at risk was \$1,358 million, \$359 million and \$653 million at December 31, 2018, 2017 and 2016, respectively. As of February 17, 2017, GIAC no longer offers GMWB.

GMDBs provide a death benefit if the contract value is less than the guaranteed minimum amount. Some contracts provide that guarantee upon the contract owner’s death while others provide it upon the annuitant’s death. Most base contracts include a death benefit based on a ROP (the premium paid less amounts withdrawn). Additionally, coverage amounts for elective riders include a roll-up (an accumulation of premium at a specified interest rate adjusted for withdrawals), a reset (the contract value on a specified anniversary date adjusted for subsequent withdrawals, which may decrease when reset), or a ratchet (the contract value on a specified anniversary date adjusted for subsequent withdrawals, which is never allowed to decrease when reset). For an annuity contract, a decline in the stock market causing the contract value to fall below the specified amount will increase the net

amount at risk, which is the GMDB in excess of the contract value. The liability for GMDBs is included in policyholders' reserves and the related change in this liability is included in change in policyholders' reserves. The net amount at risk represents the amount of death benefit guaranteed over the account value. At December 31, 2018, 2017 and 2016, the net amount at risk was \$97 million, \$36 million and \$46 million, respectively. All GMDB annual benefit elective riders issued through December 2009 are 100% reinsured with two third party reinsurers, each of which has a financial strength rating of at least AA- from S&P. To the extent the GMDB annual benefit elective rider was purchased, ROP benefit risk was also reinsured with such third-party reinsurers for certain issue years. Depending on the type of GMDB annual death benefit rider purchased, the ROP portion of coverage ended for contracts issued either on or after April 2005 or January 2009, and such risks are no longer reinsured.

In the past, GIAC also offered GMIBs. The amount of these riders in-force is minimal relative to the GMWB business in-force. GMIBs provide the annuity contract holder with a guaranteed minimum payment when the contract is annuitized. The GMIB would be beneficial to the contract holder if the contract holder's account value would otherwise not provide a higher annuitization value using currently offered rates at the time of annuitization. The GMIB riders are 100% reinsured with one third-party reinsurer. GIAC no longer sells this type of VAGLB. The account value of the GMIB riders was \$52 million, \$67 million and \$75 million at December 31, 2018, 2017 and 2016, respectively.

GIAC no longer sells the GMAB rider. Existing business for legacy policies accounted for \$0.2 million of account value at December 31, 2018, \$0.7 million at December 31, 2017 and \$1.7 million at December 31, 2016. There is no reinsurance on this block of riders. In general, VAGLBs require adherence to limitations required by GIAC's approved asset allocation strategy. Election of a VAGLB is generally only available at contract issue. As noted above, as of February 17, 2017, GIAC no longer offers VAGLBs.

Actuarial Guideline XLIII (VACARVM) provides guidance on how to calculate reserves for VAs with both living and death benefit guarantees. The guideline requires the reserve to be calculated using two approaches, the standard scenario approach and the stochastic scenario approach, the final reserve being the greater of the two. The Standard Scenario amount is based on a single path, deterministic projection with stipulated assumptions and the stochastic amount is based on the results of stochastically generated interest rate and equity scenarios. Management's best estimate assumptions along with margins for uncertainty are used to calculate the stochastic amount. Key assumptions used in valuing the liability include full withdrawals, partial withdrawals, mortality, investment management fees and revenue sharing, expenses, fund allocations, and other policyholder behavior. In addition, a method for projecting interest rates and equity returns is required. The stochastic process also requires the projection of in-force general account assets, assets from reinvested cash flows and in-force hedge assets that support the liabilities. The key assumptions needed in valuing the assets include reinvestment asset mix, reinvestment credit spreads, default rates, implied volatility, and swap interest rates. At December 31, 2018, 2017 and 2016, the Stochastic amount was the greater of the two measures and was thus used as the final reserve.

SPIA and DIA statutory reserves are determined as the present value of future payments. The present value of future payments is based on prescribed maximum mortality and discount rate assumptions; however, for certain issue years, more conservative discount rate assumptions are used.

The estimated fair value of contract holder account balances for investment type contracts has been determined to be equivalent to carrying value as the current offering and renewal rates are set in response to current market conditions.

The estimated fair value of contract holder account balances for investment type contracts has been determined to be equivalent to carrying value as the current offering and renewal rates are set in response to current market conditions.

All policyholders' reserves and accruals are based on the various estimates discussed previously and are presented net of reinsurance. Management believes that these liabilities and accruals will be sufficient, in conjunction with future revenues, to meet future anticipated obligations of policies and contracts in-force.

Reserves for dividend accumulations, premium deposit funds and investment-type contracts are based on account value or accepted actuarial methods using applicable interest rates. Fair value is estimated by discounting expected future cash flows using current market.

SELECTED HISTORICAL STATUTORY FINANCIAL INFORMATION OF GUARDIAN

The selected financial information of Guardian set forth below has been compiled on an unconsolidated basis and determined in accordance with SAP. For a description of the accounting principles applicable to this financial information and certain differences between SAP and GAAP, see “Financial and Accounting Matters—Summary of Principal Differences Between SAP and GAAP.”

The following statutory financial information as of December 31, 2018, 2017 and 2016 and for the years then ended has been derived from the Statutory Financial Statements included elsewhere in this Offering Memorandum. The Statutory Financial Statements for 2018, 2017 and 2016 have been audited by PricewaterhouseCoopers LLP, independent accountants.

This information should be read in conjunction with, and is qualified in its entirety by, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Statutory Financial Statements and other information included elsewhere in this Offering Memorandum. 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. Actual results may differ from estimates. The results for past accounting periods are not necessarily indicative of the results to be expected for any future accounting period.

	Years Ended December 31,			\$ Change	% Change	\$ Change	% Change
	2018	2017	2016	2018 vs. 2017	2018 vs. 2017	2017 vs. 2016	2017 vs. 2016
	(\$ in Millions)						
Statements of Income Data:							
Revenue:							
Premiums, annuity considerations and fund deposits	\$ 8,381	\$ 8,112	\$ 7,768	\$ 269	3.3%	\$ 344	4.4%
Net investment income	2,132	2,106	2,052	26	1.2%	54	2.6%
Amortization of IMR	74	99	122	(25)	-25.3%	(23)	-18.9%
Other income	270	342	299	(72)	-21.1%	43	14.4%
Total revenue	<u>\$10,857</u>	<u>\$10,659</u>	<u>\$10,241</u>	<u>\$ 198</u>	<u>1.9%</u>	<u>\$ 418</u>	<u>4.1%</u>
Benefits and expenses:							
Benefit payments to policyholders and beneficiaries	\$ 4,535	\$ 4,449	\$ 4,293	\$ 86	1.9%	\$ 156	3.6%
Net additions to policy benefit reserves	2,481	2,409	2,330	72	3.0%	79	3.4%
Commissions and operating expenses	<u>2,445</u>	<u>2,383</u>	<u>2,262</u>	<u>62</u>	<u>2.6%</u>	<u>121</u>	<u>5.3%</u>
Total benefits and expenses	\$ 9,461	\$ 9,241	\$ 8,885	\$ 220	2.4%	\$ 356	4.0%
Gain from operations before dividends and federal income taxes	1,396	1,418	1,356	(22)	-1.6%	62	4.6%
Dividends to policyholders ⁽¹⁾	<u>(966)</u>	<u>(903)</u>	<u>(839)</u>	<u>(63)</u>	<u>7.0%</u>	<u>(64)</u>	<u>7.6%</u>
Gain from operations before federal income taxes	\$ 430	\$ 515	\$ 517	\$ (85)	-16.5%	\$ (2)	-0.4%
Federal income tax benefit/(expense)	<u>52</u>	<u>(65)</u>	<u>(141)</u>	<u>117</u>	<u>-180.0%</u>	<u>76</u>	<u>-53.9%</u>
Income from operations before net realized capital gains	\$ 482	\$ 450	\$ 376	\$ 32	7.1%	\$ 74	19.7%
Net realized capital gains	<u>(172)</u>	<u>(27)</u>	<u>(8)</u>	<u>(145)</u>	<u>537.0%</u>	<u>(19)</u>	<u>237.5%</u>
Net income	<u>\$ 310</u>	<u>\$ 423</u>	<u>\$ 368</u>	<u>\$ (113)</u>	<u>-26.7%</u>	<u>\$ 55</u>	<u>14.9%</u>
Balance Sheet Data:							
Assets:							
Total assets	\$58,489	\$55,569	\$51,884	\$ 2,920	5.3%	\$ 3,685	7.1%
Liabilities and surplus:							
Reserves for policy benefits	\$44,258	\$41,778	\$39,369	\$ 2,480	5.9%	\$ 2,409	6.1%
Policyholder dividends payable and other contract liabilities ⁽²⁾	3,753	3,550	3,107	203	5.7%	443	14.3%
Interest maintenance reserve	301	531	464	(230)	-43.3%	67	14.4%
Asset valuation reserve	879	829	810	50	6.0%	19	2.3%
Other liabilities	<u>2,126</u>	<u>2,197</u>	<u>1,962</u>	<u>(71)</u>	<u>-3.2%</u>	<u>235</u>	<u>12.0%</u>
Total liabilities	\$51,317	\$48,885	\$45,712	\$ 2,432	5.0%	\$ 3,173	6.9%
Surplus	<u>7,172</u>	<u>6,684</u>	<u>6,172</u>	<u>488</u>	<u>7.3%</u>	<u>512</u>	<u>3.0%</u>
Total liabilities and surplus	<u>\$58,489</u>	<u>\$55,569</u>	<u>\$51,884</u>	<u>\$ 2,920</u>	<u>5.3%</u>	<u>\$ 3,685</u>	<u>7.1%</u>

(1) Dividends to policyholders are discretionary and subject to the approval of Guardian’s Board of Directors.

(2) Statutory accounting practices require that the liability for policyholders’ dividends include dividends currently payable and the full amount of dividends apportioned for payment over the 12 months following the date of the applicable payment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion below is prepared in conformity with SAP and the accounting practices prescribed by the NYSDFS. See "Financial and Accounting Matters—Summary of Principal Differences Between SAP and GAAP."

General

This disclosure should be read in conjunction with the Statutory Financial Statements (including the notes thereto) and "Selected Historical Statutory Financial Information of Guardian." This section reviews the financial condition of Guardian at December 31, 2018, 2017 and 2016, Guardian's results of operations for the years ended December 31, 2018, 2017 and 2016, and factors that may affect Guardian's future financial performance.

Guardian, together with its subsidiaries, is a diversified financial services group that seeks to provide attractive value for policyholders and customers by providing a wide array of differentiated products and services, while aiming to achieve strong financial results. In pursuing this strategy, Guardian's guiding principle is to enable its customers to obtain financial success while protecting their families and businesses. To achieve this goal, Guardian focuses on developing and distributing a broad portfolio of financial products and services, maintaining what it believes to be prudent underwriting standards and rigorous expense control, and pursuing asset/liability management practices that it considers conservative.

Guardian's statutory net income was \$310 million for the year ended December 31, 2018, \$423 million for the year ended December 31, 2017 and \$368 million for the year ended December 31, 2016. As of and for the year ended December 31, 2018, Guardian had \$58.5 billion in total statutory assets, net gain from operations (before dividends to policyholders and taxes) of \$1.4 billion, over 1.2 million individual policies in-force, and \$659.5 billion of life insurance in-force.

Guardian's insurance financial strength/claims paying ability, is rated AA+ by S&P, Aa2 by Moody's, AA+ by Fitch, and A++ by A.M. Best. S&P, Moody's, Fitch, and A.M. Best currently report a stable outlook for Guardian's insurance financial strength rating. Each rating agency independently assigns ratings based on its own separate review and takes into account a variety of factors, which are subject to change, in making its decision. Accordingly, there can be no assurance of the ratings that will be afforded Guardian or the Notes in the future. These ratings are of interest to policyholders, but are not ratings of the Notes offered hereby and do not reflect an evaluation of the safety and security of the Notes.

Basis of Presentation

The preparation of financial statements requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates include those used in determining the carrying values of investments and derivatives, the liability for future policyholders' reserves and deposit-type contracts, and the amount of investment valuation reserves on mortgage loans, real estate held for sale, other-than-temporary impairments and the liability for taxes. Future events including, but not limited to, changes in the levels of mortality, morbidity, interest rates, persistency and asset valuations, could cause actual results to differ from the estimates used in the financial statements. Although some variability is inherent in these estimates, management believes the amounts presented are appropriate. Guardian has reclassified certain prior year balances to conform to the current year presentation. With respect to an individual line item, a discussion of changes between the end of one period and another may be omitted to the extent such item has not changed materially.

The discussion below regarding Guardian's results of operations is based on the Statutory Financial Statements of Guardian included elsewhere in this Offering Memorandum. Those financial statements have been prepared on the basis of SAP prescribed by the NYSDFS. Under SAP, results of subsidiaries are not consolidated with the results of Guardian on a line-by-line basis, but rather are generally recorded at their underlying net equity

value as affiliated common stock investments, with the current year change in net equity value, less dividends paid and contributions from Guardian reflected in unrealized capital gains and losses through surplus. Dividends received from subsidiaries are included in Guardian’s net investment income. See “Financial and Accounting Matters.”

Analysis of Results of Operations—For the Years Ended December 31, 2018, 2017 and 2016.

The following table sets forth the components of statutory net income for the years ended December 31, 2018, 2017 and 2016.

	Years Ended December 31,		
	2018	2017	2016
	(\$ in Millions)		
Revenue:			
Premiums, annuity considerations and fund deposits	\$ 8,381	\$ 8,112	\$ 7,768
Net investment income	2,132	2,106	2,052
Amortization of IMR	74	99	122
Other income	<u>270</u>	<u>342</u>	<u>299</u>
Total revenue	\$ 10,857	\$ 10,659	\$ 10,241
Benefits and expenses:			
Benefit payments to policyholders and beneficiaries	\$ 4,535	\$ 4,449	\$ 4,293
Net increase to policy benefit reserves	2,481	2,409	2,330
Commissions and operating expenses	<u>2,445</u>	<u>2,383</u>	<u>2,262</u>
Total benefits and expenses	\$ 9,461	\$ 9,241	\$ 8,885
Gain from operations before dividends and federal income taxes	1,396	1,418	1,356
Dividends to policyholders	(966)	(903)	(839)
Gain from operations before federal income taxes	\$ 430	\$ 515	\$ 517
Federal income tax expense	<u>52</u>	<u>(65)</u>	<u>(141)</u>
Net gain from operations	\$ 482	\$ 450	\$ 376
Net realized capital (losses)/gains after taxes and transfers to IMR ...	<u>(172)</u>	<u>(27)</u>	<u>(8)</u>
Net income.....	<u>\$ 310</u>	<u>\$ 423</u>	<u>\$ 368</u>

Net Income

Total revenue increased \$0.2 billion from \$10.7 billion in 2017 to \$10.9 billion in 2018, driven primarily by higher premiums, annuity considerations and fund deposits, partially offset by a decrease in net reserve adjustments on reinsurance and lower amortization of IMR. Total benefits and expenses increased \$0.2 billion from \$9.2 billion in 2017 to \$9.4 billion in 2018, due to increase in benefit payments to policyholders and beneficiaries, net increases to policy benefit reserves, and increases to commissions and operating expenses.

Total revenue increased \$0.4 billion from \$10.2 billion in 2016 to \$10.6 billion in 2017, driven primarily by an increase in premiums, annuity considerations and fund deposits. Total benefits and expenses increased \$0.3 billion from \$8.9 billion in 2016 to \$9.2 billion in 2017, due to increases in benefit payments to policyholders and beneficiaries, policy benefit reserves, and commissions and operating expenses.

Premium income, annuity considerations and fund deposits

Selected premium income, annuity considerations and fund deposits information is presented below:

	Years Ended December 31,			\$ Change 2018 vs. 2017	% Change 2018 vs. 2017	\$ Change 2017 vs. 2016	% Change 2017 vs. 2016
	2018	2017	2016				
	(\$ in Millions)						
Premium income:							
Whole life	\$ 3,971	\$ 3,900	\$ 3,706	\$ 71	1.8%	\$ 194	5.2%
Disability	501	481	464	20	4.2%	17	3.7%
Term, universal, and variable life .	125	134	138	(9)	-6.7%	(4)	-2.9%
Commercial and Government							
Markets	3,782	3,613	3,457	169	4.7%	156	4.5%
Reinsurance and Other.....	2	(16)	3	18	-112.5%	(19)	-633.30%
Total.....	<u>\$8,381</u>	<u>\$ 8,112</u>	<u>\$ 7,768</u>	<u>\$ 269</u>	<u>3.3%</u>	<u>\$ 344</u>	<u>4.4%</u>

For the year ended December 31, 2018, premium income as compared to the year ended December 31, 2017 increased \$269 million, primarily due to an increase in Commercial and Government Markets premiums of \$169 million and an increase of \$71 million of Whole life premiums due to natural growth and persistency.

For the year ended December 31, 2017, premium income as compared to the year ended December 31, 2016 increased \$344 million, primarily due to an increase in whole life premium income of \$194 million due to natural growth and persistency and an increase in Group premium income of \$156 million due to improved persistency and growth.

Net Investment Income

The components of net investment income are set forth below:

	Years Ended December 31		
	2018	2017	2016
	(\$ in Millions)		
Net investment income:			
Bonds.....	\$ 1,637	\$ 1,611	\$ 1,545
Preferred stocks	-	-	7
Common stocks—subsidiaries and affiliates	45	47	12
Common stocks—unaffiliated	13	24	9
Mortgage loans	171	166	169
Policy loans	262	253	247
Real estate.....	64	69	73
Derivatives and other invested assets	154	155	181
Cash, cash equivalents and short-term investments.....	13	6	4
Total gross investment income	<u>\$ 2,359</u>	<u>\$ 2,331</u>	<u>\$ 2,247</u>
Investment expenses	<u>(227)</u>	<u>(225)</u>	<u>(195)</u>
Net investment income	<u>\$ 2,132</u>	<u>\$ 2,106</u>	<u>\$ 2,052</u>
Amortization of IMR	74	99	122
Net investment income including IMR amortization.....	<u>\$ 2,206</u>	<u>\$ 2,205</u>	<u>\$ 2,174</u>

For the year ended December 31, 2018, net investment income, including IMR amortization, increased slightly as compared to 2017.

For the year ended December 31, 2017, net investment income, including IMR amortization, increased \$31 million due to increased net investment income from the bond, unaffiliated common stock and affiliated common stock portfolios. This increase was partially offset by higher investment expenses and lower IMR amortization.

For the year ended December 31, 2016, net investment income, including IMR amortization, increased \$86 million due to increases in bonds and mortgage interest income plus increased private equity income

distributions, which was partially offset by lower dividend distributions from common stock affiliates and higher investment expenses.

Guardian calculates the yield on its investment portfolio before federal income taxes as (a) two times gross investment income divided by (b) the beginning and ending balance of invested assets minus (c) gross investment income. After deducting all investment expenses, the net annualized yields were, 4.21% for the year ended December 31, 2018, 4.42% for the year ended December 31, 2017 and 4.66% for the year ended December 31, 2016.

Bond gross investment income increased \$26 million in 2018 as compared to 2017 due to increased average asset balances. Bond gross investment income increased \$66 million in 2017 as compared to 2016 due to increased average asset balances. Average bond asset balances were \$38.7 billion, \$36.7 billion and \$33.6 billion in 2018, 2017 and 2016, respectively. Average bond portfolio yields decreased from 4.60% in 2016 to 4.39% in 2017 to 4.23% in 2018. Prepayment fees on private placements, which are included in gross investment income, were \$5 million in 2018, \$15 million in 2017 and \$37 million in 2016.

Income from common stocks—unaffiliated decreased by \$11 million in 2018, as compared to 2017. Income from common stocks—unaffiliated increased by \$15 million in 2017, as compared to 2016.

Mortgage loan gross investment income increased \$5 million in 2018 as compared to 2017 due to increased average asset balances.

Mortgage loan gross investment income decreased \$3 million in 2017 as compared to 2016 due to lower mortgage prepayment fees received in 2017. Predominantly all income comes from commercial loans. Average mortgage portfolio yields were 4.01% in 2018, 4.44% in 2017 and 4.94% in 2016. Mortgage prepayment fees, which are included in gross investment income, were \$3 million in 2018, \$8 million in 2017 and \$14 million in 2016.

The \$9 million increase in policy loan gross investment income in 2018 as compared to 2017 is primarily due to an increase in average asset balance which rose from \$3.5 billion in 2017 to \$3.6 billion in 2018. The \$6 million increase in policy loan gross investment income in 2017 as compared to 2016 is primarily due to an increase in average asset balance which rose from \$3.4 billion in 2016 to \$3.5 billion in 2017.

Real estate income decreased by \$5 million in 2018 as compared to the prior year. Real estate income decreased by \$4 million in 2017 as compared to the prior year.

In 2018, gross investment income in derivatives and other invested assets was only \$1 million less than in 2017. In 2017, the decrease in derivatives and other invested assets gross investment income of \$26 million was primarily due to \$38 million lower private equity income distributions in 2017 as compared to 2016, partially offset by higher income distributions from real estate joint ventures and real estate fund investments.

The cash, cash equivalents and short-term investment gross investment income increased by \$7 million in 2018 as compared to 2017 as short term interest rates rose sharply in 2018. The cash, cash equivalents and short-term investment gross investment income increased slightly by \$2 million in 2017 as compared to 2016.

Amortization of IMR decreased \$25 million in 2018 as a result of a significant increase in realized losses in the bond portfolio of \$463 million as compared to 2017. Amortization of IMR decreased \$23 million in 2017 as a result of a significant decrease in bond gains of \$146 million as compared to 2016.

Other income

Other income, which includes miscellaneous income, commissions and expense allowances on reinsurance ceded, and reserve adjustments on reinsurance, decreased \$72 million for the year ended December 31, 2018, as compared to December 31, 2017, primarily due to reserve adjustments on reinsurance assumed that were negatively impacted by investment market returns.

Other income, which includes miscellaneous income, commissions and expense allowances on reinsurance ceded, and reserve adjustments on reinsurance, increased \$43 million for the year ended December 31, 2017, as compared to December 31, 2016, primarily due to reserve adjustments on reinsurance assumed.

Benefit payments to policyholders and beneficiaries

Benefit payments to policyholders and beneficiaries increased \$86 million for the year ended December 31, 2018 as compared to December 31, 2017. The increase is primarily due to natural increases in Individual Life claims paid of \$66 million and higher surrenders paid of \$151 million, partially offset by the \$168 million initial allocation of the future benefit portion of pending and unreported LTD claim reserves to the additions to policy benefit reserves line.

Benefit payments to policyholders and beneficiaries increased \$156 million for the year ended December 31, 2017 as compared to December 31, 2016. The increase is primarily due to increased surrender benefits and withdrawals for life contracts, higher death benefits, and increased interest and adjustments on deposit type contract funds.

Additions to policy benefit reserves

Net additions to policy benefit reserves increased \$72 million in the year ended December 31, 2018 compared to the year ended December 31, 2017. The policyholders' reserves increased primarily as a result of the \$168 million initial allocation of the future benefit portion of pending and unreported LTD claim reserves previously reported on the benefit payments to policyholders and beneficiaries line, partially offset by decreases in Individual Life of \$130 million due to higher surrenders.

Net additions to policy benefit reserves increased \$79 million in the year ended December 31, 2017 compared to the year ended December 31, 2016. The policyholders' reserves increased primarily as a result of natural growth of Individual Life reserves.

Commissions and operating expenses

Commissions and operating expenses increased \$62 million in the year ended December 31, 2018 compared to the year ended December 31, 2017, due to premium growth from all lines of Commercial and Government Markets of \$37 million, increased expense allowances on reinsurance assumed of \$11 million, and increased field expenses resulting from the closing of the Field Clerical Pension Plan of \$16 million.

Commissions and operating expenses increased \$121 million in the year ended December 31, 2017 compared to the year ended December 31, 2016, due to premium growth from better persistency, increases in general insurance expenses partially offset by decreases in premiums, licenses, and fees.

Dividends to Policyholders

Dividends to policyholders increased \$63 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017, due to natural growth.

Dividends to policyholders increased \$64 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016, due to natural growth.

Guardian Federal Income Tax Expense

Federal income tax expense on operations decreased \$117 million for the year ended December 31, 2018 as compared to the year ended December 31, 2017, primarily due to a decrease in ordinary taxable income of \$35 million and a decrease of \$77 million due to the benefit realized from a contribution to the pension plans.

Federal income tax expense on operations decreased \$76 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to a decrease in ordinary taxable income.

Net Realized Capital Gains After Tax and Transfers to IMR

Net realized capital gains after taxes and transfers to IMR were comprised of the following:

	Years Ended December 31,		
	2018	2017	2016
	(\$ in Millions)		
Total net realized capital gains (losses) after taxes and transfers to IMR			
Bonds.....	\$ (208)	\$ 255	\$ 401
Preferred stocks	-	28	(11)
Mortgage loans	-	(7)	(2)
Common stocks—subsidiaries and affiliates	-	-	-
Common stocks—unaffiliated	(8)	15	5
Real estate.....	25	12	29
Derivatives and other invested assets	(188)	(12)	(54)
Net realized capital gains (losses) before deferral to the IMR.....	\$ (379)	\$ 291	\$ 368
Capital gains tax benefit/(expense).....	51	(152)	(164)
Transfer from/(to) IMR	156	(166)	(212)
Total net realized capital losses after tax benefit/(expense) and transfers from/(to) IMR.....	\$ (172)	\$ (27)	\$ (8)

The book values of investments are written down when a decline in value is considered to be other-than-temporary. Impairments during 2018, 2017 and 2016 totaled \$192 million, \$54 million and \$46 million, respectively. Of the \$192 million for 2018, \$59 million relates to impairments that reduced surplus which were driven primarily by \$39 million for GIS’s sale of the DSO business and \$14 million in bonds. The remaining \$133 million relates primarily to \$90 million in investment tax credit investments and \$30 million for private equities. Of the \$54 million for 2017, \$15 million relates to impairments that reduced surplus which consists of \$11 million in bonds and \$4 million in real estate. The remaining \$39 million was primarily for private equities. In 2016, \$46 million of impairments were taken on private equity limited partnership investments which had no impact on surplus. Guardian employs a systematic methodology to evaluate other-than-temporary impairments. The methodology to evaluate declines in value utilizes a quantitative and qualitative process to attempt to evaluate available evidence concerning the declines in a disciplined manner. See “Financial and Accounting Matters—Critical Accounting Policies.”

Net realized capital gains after taxes and transfers from IMR decreased \$145 million in 2018 as compared to 2017, primarily from decreased realized gains after IMR in the bond portfolio of \$141 million, increased other-than-temporary impairments of \$138 million and decreased gains in unaffiliated common stock of \$23 million. These were partially offset by reduced capital gains taxes of \$203 million.

Net realized capital gains after taxes and transfers to IMR decreased \$19 million in 2017 as compared to 2016, primarily from decreased realized gains after IMR in the bond portfolio of \$100 million, realized gains resulting from sales of directly owned real estate decreased \$17 million, and realized losses on mortgage loans were \$5 million higher in 2017 as compared to 2016. These decreases were partially offset by a decrease in capital gains tax of \$12 million, lower derivative and other invested assets losses of \$42 million, and higher preferred stock gains of \$39 million.

Realized capital gains after tax and transfers to IMR do not reflect the changes in AVR and other investment reserves, which are recorded as a change in surplus.

Bonds: Net realized capital gains after IMR decreased by \$141 million in 2018 as compared to 2017, primarily due to the rising interest rate environment during 2018. Net realized capital gains after IMR decreased by \$100 million in 2017 as compared to 2016, primarily due to lower trading activity in 2017.

There were \$14 million in other-than-temporary impairments in the bond portfolio during 2018. There were \$11 million in other-than-temporary impairments in the bond portfolio during 2017 related to a private placement holding. There were no other-than-temporary impairments in the bond portfolio during 2016.

Derivative and other invested assets:

Derivative instruments and other invested assets had realized (losses) of (\$188) million in 2018 compared to realized (losses) of (\$12) million in 2017. There were (\$178) million in other-than-temporary impairments in 2018 in this category as compared to (\$39) million in 2017. There were (\$2) million in realized (losses) on real estate joint venture sales in 2018 as compared to \$28 million in gains on sale in 2017. Realized gains on foreign currency generated \$9 million in realized gains in 2018 as compared to \$14 million realized gains in 2017. Credit default swaps generated a realized (loss) of (\$5) million in 2018 as compared to a (\$1) million loss in 2017. In addition, realized (losses) on future contracts were (\$12) million in 2018 as compared to (\$17) million in 2017. Lastly, there were no realized gains on the sale of surplus note investments in 2018 as compared to \$3 million in realized gains in 2017.

Derivative instruments and other invested assets had realized (losses) of (\$12) million in 2017 compared to realized (losses) of (\$54) million in 2016. There were (\$39) million in other-than-temporary impairments in 2017 in this category as compared to (\$46) million in 2016. There were \$28 million in private equity and real estate joint venture gains on sale in 2017 as compared to \$37 million in gains on sale in 2016. Realized gains on foreign currency generated \$14 million realized gains in 2017 as compared to no realized gains/ (losses) in 2016. Credit default swaps generated a realized (loss) of (\$1) million in 2017 as compared to a (\$4) million loss in 2016. In addition, realized (losses) on future contracts were (\$17) million in 2017 as compared to (\$41) million in 2016. Lastly, realized gains on the sale of surplus note investments totaled \$3 million in 2017 as compared to no realized gains/(losses) in 2016. For a description of Guardian's hedging program and its limitations, see "Financial and Accounting Matters—Critical Accounting Policies" and "—Quantitative and Qualitative Information about Market Risk—Hedging Programs."

For 2018, \$156 million of net after-tax losses were transferred out of the IMR primarily from the sales of bonds during 2018 in the normal course of business. For 2017, \$166 million of net after-tax gains were deferred into the IMR primarily from the sales of bonds during 2017 in the normal course of business. For 2016, \$212 million of net after-tax gains were deferred into the IMR primarily from significant gains on bond sales during 2016. Gains/losses transferred from or deferred to the IMR are amortized into income over the estimated life of the investment sold.

Common stocks of unaffiliated entities as of December 31, 2018 increased \$125 million as compared to December 31, 2017, or 23.3%, primarily due to net acquisitions in the portfolio. Net realized (losses) recognized from these dispositions were \$8 million. Net unrealized (losses) from stocks were \$57 million. There were no other-than-temporary impairments during 2018.

Common stocks of unaffiliated entities as of December 31, 2017 increased \$98 million as compared to December 31, 2016, or 22.4%, primarily due to net acquisitions in the portfolio. Net realized gains recognized from these dispositions were \$15 million. Net unrealized gains from stocks were \$31 million. There were no other-than-temporary impairments during 2017.

Mortgage loans as of December 31, 2018 increased \$519 million as compared to December 31, 2017, or 13.0%, including \$993 million in new investments, rollovers and additional fundings, which were partially offset by the \$471 million of paydowns, sales and full payoffs.

Mortgage loans as of December 31, 2017 increased \$529 million as compared to December 31, 2016, or 15.2%, including \$1,033 million in new investment, rollovers and additional fundings, which were partially offset by the \$502 million of paydowns, sales and full payoffs.

Guardian does not originate any residential mortgages but invests in residential mortgage loan pools, which may contain mortgages of subprime credit quality.

Policy loans as of December 31, 2018 increased \$115 million as compared to December 31, 2017 or 3.3%, due to growth in the ordinary course of business. Policy loans as of December 31, 2017 increased \$115 million as compared to December 31, 2016, or 3.4%, due to growth in the ordinary course of business.

Properties held for the production of income at December 31, 2018 of \$328 million decreased by \$13 million from \$341 million at December 31, 2017. This was primarily due to four property sales with proceeds of \$66 million during 2018 that generated \$25 million in net realized gains. There were no properties purchased during 2018, however, 1 property with a book value of \$32 million was acquired via foreclosure. There was also \$6 million in capital expenditures during 2018. Real estate occupied by the company is \$3 million as of December 31, 2018 and is included in the \$331 million total. Depreciation expense recorded during 2018 totaled \$18 million and the decrease in encumbrances was \$7 million. As of December 31, 2018, industrial and other buildings in the general account represented 11.6% of Guardian's real estate portfolio compared to 22.6% for the same property type as of December 31, 2017.

Properties held for the production of income at December 31, 2017 of \$341 million decreased by \$20 million from \$361 million at December 31, 2016. This was primarily due to five property sales with proceeds of \$107 million during 2017 that generated \$16 million in net realized gains. There were no properties purchased during 2017, however, 2 properties with a book value of \$26 million were acquired via foreclosure. There was also \$2 million in capital expenditures during 2017. Real estate occupied by the company is \$4 million as of December 31, 2017 and is included in the \$345 million total. Depreciation expense recorded during 2017 totaled \$19 million and the decrease in encumbrances was \$52 million. There was one property that was written off as an impairment during 2017 and this generated a realized loss of \$4 million. As of December 31, 2017, industrial and other buildings in the general account represented 22.6% of Guardian's real estate portfolio compared to 21.7% for the same property type as of December 31, 2016.

Partnership and LLCs as of December 31, 2018 increased \$245 million as compared to December 31, 2017, or 12.5%, as a result of net capital contributions made to new and existing partnerships. Partnerships and LLCs had \$178 million in other-than-temporary impairments as of December 31, 2018, which did not result in a reduction of surplus. During 2018, there were \$577 million contributed to new or existing partnerships. In addition, during 2018, there were \$205 million of returns of capital. There were no sales of real estate ventures during 2018.

Partnerships and LLCs as of December 31, 2017 increased \$168 million as compared to December 31, 2016, or 9.4%, as a result of capital contributions made to new and existing partnerships. Partnerships and LLCs had \$39 million in other-than-temporary impairments as of December 31, 2017. During 2017, there were \$446 million

contributed to new or existing partnerships. In addition, during 2017, there were \$232 million of returns of capital which included the sale of four real estate joint/private equity ventures that generated \$24 million in realized gains.

Derivatives and other invested assets at December 31, 2018 were \$473 million, \$417 million at December 31, 2017 and \$83 million at December 31, 2016. This balance mainly represents the value of foreign currency swaps and a small number of unsettled trades at December 31, 2018 relating to bond and stock trading activity. It also includes \$365 million in investments in surplus note debentures of other insurance companies at December 31, 2018, that were reclassified out of bonds and into other invested assets at the beginning of 2017.

Guardian uses derivative financial instruments in the ordinary course of business to attempt to manage risks, primarily to reduce equity, interest rate and currency risk. For a description of these hedging programs and their limitations, see “—Quantitative and Qualitative Information about Market Risk—Hedging Programs.” The vast majority of Guardian’s investment risk is not hedged. Guardian may use a combination of derivatives and fixed income investments to create synthetic investment positions. These combined investments are created opportunistically when they are economically more attractive than the replicated instrument or when the replicated instrument is unavailable. To a much lesser extent, some of these combinations are considered replicated asset transactions as defined under statutory accounting principles.

Cash, cash equivalents and short-term investments increased by \$178 million at December 31, 2018 compared to December 31, 2017 due to Guardian receiving proceeds late in the year that could not be reinvested into longer term investments. Cash, cash equivalents and short-term investments decreased by \$268 million at December 31, 2017 compared to December 31, 2016 due to deploying a higher percentage of assets into longer term investments.

Investment income due and accrued at December 31, 2018 was \$415 million. Investment income due and accrued at December 31, 2017 was \$430 million. Investment income due and accrued at December 31, 2016 was \$384 million.

Other than invested assets increased \$305 million from \$5.114 billion at December 31, 2017 to \$5.419 billion at December 31, 2018, primarily due to an increase in funds held or deposited with reinsured companies and an increase in current federal and foreign income tax recoverable and interest thereon.

Other than invested assets increased \$149 million from \$4.965 billion at December 31, 2016 to \$5.114 billion at December 31, 2017, primarily due to an increase in funds held or deposited with reinsured companies partially offset by a decrease in the net deferred tax asset.

Other than invested assets increased \$24 million from \$4.941 billion at December 31, 2015 to \$4.965 billion at December 31, 2016, primarily due to increased receivables from subsidiaries and affiliates.

Liabilities

Total liabilities as of December 31, 2018 increased \$2.432 billion, or 5.0%, as compared to December 31, 2017, primarily due to increases in reserves for policy benefits and policyholder dividends payable and other contract liabilities.

The increase in reserves for policy benefits of \$2.480 billion at December 31, 2018 as compared to December 31, 2017 is primarily related to natural growth of the business and the \$168 million initial allocation of the future benefit portion of pending and unreported LTD claim reserves.

Policyholder dividends payable and other contract liabilities increased \$203 million at December 31, 2018 as compared to December 31, 2017, primarily due to the issuance of a funding agreement of \$337 million partially offset by the \$168 million initial allocation of the future benefit portion of pending and unreported LTD claim reserves to reserves for policy benefits.

Total liabilities as of December 31, 2017 increased \$3.173 billion, or 6.9%, as compared to December 31, 2016, primarily due to increases in reserves for policy benefits and policyholder dividends payable and other contract liabilities.

AVR increased \$50 million, or 6.1%, at December 31, 2018 as compared to December 31, 2017, primarily due to the required basic contributions that are required by the AVR formula. The mortgage reserve increased by \$5 million from \$32 million at December 31, 2017 to \$37 million at December 31, 2018.

AVR increased \$19 million, or 2.4%, at December 31, 2017 as compared to December 31, 2016, and is at its maximum reserve primarily due to the required basic contributions that are required by the AVR formula. The mortgage reserve increased by \$1 million from \$31 million at December 31, 2016 to \$32 million at December 31, 2017.

Other liabilities at December 31, 2018 of \$2.126 billion decreased by \$71 million from \$2.197 billion at December 31, 2017. This decrease was primarily due to decreases in general expenses due and accrued.

Other liabilities at December 31, 2017 of \$2.197 billion increased by \$235 million from \$1.962 billion at December 31, 2016. This increase was primarily due to increases in general expenses due and accrued.

Surplus

Surplus increased \$488 million from \$6.684 billion at December 31, 2017 to \$7.172 billion at December 31, 2018. The increase in surplus was primarily due to net income of \$310 million and increases in net unrealized capital gains (losses) of \$184 million.

Surplus increased \$512 million from \$6.172 billion at December 31, 2016 to \$6.684 billion at December 31, 2017. The increase in surplus was primarily due to net income of \$423 million and the issuance of a surplus note of \$350 million. These increases were partially offset by increased pension liabilities and a decrease in net admitted deferred income tax.

Liquidity and Capital Resources

Liquidity

Guardian manages its liquidity position by matching its exposure to cash demands with adequate sources of cash and other liquid assets. Guardian's principal sources of liquidity are operating cash flows and holdings of cash, cash equivalents and other readily marketable assets. Historically, Guardian has consistently experienced net positive cash flows from operations. Guardian's primary cash flow sources include investment income, principal repayments on invested assets, and insurance premiums.

Cash, cash equivalents and short-term investments increased \$178 million, or 32.1%, as of December 31, 2018 as compared to December 31, 2017. Cash, cash equivalents and short-term investments decreased \$268 million, or 32.6%, as of December 31, 2017 as compared to December 31, 2016.

Net cash provided from operations for the year ended December 31, 2018 was \$2.561 billion. For the year ended December 31, 2018, net cash used in investing activities amounted to \$2.703 billion and net cash provided from financing totaled \$320 million. Net cash provided from operations increased \$96 million, or 3.9%, to \$2.561 billion in 2018 as compared to 2017. The increase is primarily attributable to increases in premiums and other income received of \$276 million and investment income of \$76 million. These increases to net cash provided from operations were partially offset by increased benefits and loss payments of \$249 million. The decrease in cash from financing and miscellaneous activities was primarily attributable to the issuance of a surplus note in 2017 and no issuance in 2018.

Net cash provided from operations for the year ended December 31, 2017 was \$2.465 billion. For the year ended December 31, 2017, net cash used in investing activities amounted to \$3.530 billion and net cash provided

from financing totaled \$797 million. Net cash provided from operations decreased \$199 million, or 7.5%, to \$2.465 billion in 2017 as compared to 2016. The decrease is primarily attributable to increased benefit and loss related payments and commissions, expenses and taxes paid partially offset by increased premiums and other income received. The increase in cash from financing and miscellaneous activities is primarily attributable to the issuance of a surplus note and the issuance of an FA-Backed Note in 2017.

Excess operating cash flow is used to purchase investments. Purchases of investments were \$16.2 billion, \$19.0 billion and \$20.3 billion for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively, while sales and maturities of investments and receipts from repayments of loans were \$13.6 billion, \$15.6 billion and \$16.9 billion, respectively, resulting in a net cash outflow of \$2.6 billion, \$3.4 billion and \$3.4 billion, respectively.

Guardian utilizes what it believes to be sophisticated asset/liability analysis techniques in the management of the investments supporting its liabilities. Additionally, Guardian tests the adequacy of the projected cash flows provided by assets to meet all of its future policyholder and other obligations. Guardian performs these studies using stress tests regarding future credit and other asset losses, market interest rate fluctuations, claim losses, and other considerations. The result provides a view of the adequacy of the underlying assets, reserves, and capital. Guardian analyzes a variety of scenarios modeling potential demands on liquidity, taking into account the provisions of policies and contracts in force, its cash flow position, and the volume of cash and readily marketable securities in its portfolio. Guardian attempts to proactively manage its liquidity position on an ongoing basis to meet cash needs while minimizing adverse impacts on investment returns.

In most scenarios that Guardian has tested, operating cash flow is sufficient to satisfy its obligations. Guardian believes that even in extreme scenarios tested, obligations can be met in the modeled stress tests through operating cash flows and the sale of some of Guardian's liquid assets. These stress test scenarios assume no new business that would result in immediate positive cash flow. In addition, if Guardian was in a stress situation, some uses of cash could be suspended, including new investments in illiquid instruments. However, given the inherent limitations and underlying assumptions of quantitative modeling, there can be no assurances of Guardian's ability to maintain sufficient liquidity under actual liquidity needs. See "Risk Factors—Risk Factors Related to Guardian—Guardian's investment portfolio and aspects of Guardian's business are subject to the full range of market risks, including credit, liquidity and equity markets and interest rate risks" and "—Some of Guardian's investments are relatively illiquid and are in asset classes that could experience significant market valuation fluctuations."

FHLB Membership

Guardian became a member of the Federal Home Loan Bank of New York ("FHLBNY") in February 2018. Membership provides Guardian with access to FHLBNY's financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements.

Guardian's capacity to borrow from the FHLBNY is limited to 5% of its prior year-end statutory net admitted assets, excluding separate account assets, under New York state insurance law. Based on Guardian's net admitted assets as of December 31, 2018, Guardian's borrowing capacity is more than \$2.924 billion. FHLBNY borrowings and funding agreements must be collateralized by qualifying mortgage-related assets or U.S. Treasury securities, the fair value of which must be maintained at specified levels relative to outstanding borrowings and dependent on collateral type. As of the date of this Offering Memorandum, there have been no borrowings from the FHLBNY.

Liquidity Risks

Liquidity risk is the risk that Guardian will not have access to sufficient funds to meet its liabilities when due. Guardian believes that its product mix contributes to its strong liquidity position. Guardian's blocks of variable life insurance and VA contracts limit its liquidity risk because the customer bears most of the investment risk for these types of products. A primary liquidity concern for Guardian is the risk of early contract owner and policyholder life insurance policy loans and surrenders and withdrawals. Guardian closely evaluates and manages this risk. As a matter of policy, virtually all of Guardian's life insurance and annuity products contain surrender charges for varying durations or fair value adjustments, reducing the risk that customers will seek surrenders and

withdrawals or life insurance policy loans during the periods when surrender charges or fair value adjustments are in place. Surrender charges or fair value adjustments help Guardian to better plan the maturities of its invested assets by reducing the risk that future outflows will exceed anticipated levels.

Guardian's principal sources of liquidity to meet unexpected cash outflows are its portfolio of liquid assets and its net operating cash flow. Liquid assets include cash, cash equivalents, short-term investments and other readily marketable public securities. Furthermore, Guardian monitors and manages cash flows over a one-year horizon in order to attempt to maximize investment returns relative to client obligations and to reduce the number, length of time and severity of asset and liability cash flow mismatches. See "—Investments" for a more detailed discussion of the investment portfolio.

Dividends from Subsidiaries

Guardian has not historically relied on dividends from its subsidiaries to meet its operating cash flow requirements. Dividend payments from insurance subsidiaries are generally subject to certain restrictions imposed by statutory authorities. Additionally, dividend payments from other subsidiaries are limited to their retained earnings.

For Guardian's life insurance subsidiaries, including BLICOA and GIAC, substantially all of the statutory aggregate surplus of approximately \$698 million as of December 31, 2018 is subject to dividend restrictions. Under the laws of Delaware and Massachusetts, the domiciliary states of GIAC and BLICOA, respectively, dividends in excess of unassigned funds require regulatory approval. In addition, BLICOA and GIAC must seek regulatory approval prior to paying a dividend whose fair market value together with other dividends within the preceding twelve months exceeds the greater of (i) 10% of the insurer's policyholder surplus as of the last day of December next preceding or (ii) the net gain from operations of the insurer for the twelve month period ending the last day of December next preceding. Guardian's life insurance subsidiaries, including BLICOA and GIAC, had the ability to make dividend payments up to \$171 million in 2018 without obtaining prior approval from their respective state insurance departments. Guardian's individual disability income insurance line of business is written by BLICOA and Guardian is, accordingly, only able to receive income generated by this line of business through dividends received from BLICOA. For the years ended December 31, 2018, 2017 and 2016, Guardian received an aggregate of \$44 million, \$47 million and \$12 million, respectively, in cash dividends from its subsidiaries. Guardian can make no assurance regarding the timing or amount of dividends, if any, that may be paid by these subsidiaries to Guardian in the future. GIS and FCW are not subject to dividend restrictions imposed by statutory authorities but may pay dividends up to but not exceeding any accumulated earnings. As of December 31, 2018, FCW had accumulated earnings of \$105 million and would be able to pay a dividend up to \$105 million in 2019. As of December 31, 2017, FCW had accumulated earnings of \$71 million and would be able to pay a dividend of up to \$71 million in 2018. As of December 31, 2016, FCW had accumulated earnings of \$44 million and would have been able to pay a dividend up to \$44 million in 2017.

Capital Resources

The NAIC has an RBC model to compare total adjusted capital with a standard design in order to reflect an insurance company's risk profile. RBC is calculated at year end for regulatory purposes, and Guardian estimates RBC on an interim basis. Although Guardian believes that there is no single appropriate means of measuring capital needs, Guardian feels that the NAIC approach to RBC measurement is reasonable and conservative, and Guardian manages its capital position with significant attention to maintaining adequate total adjusted capital relative to RBC. Guardian's total adjusted capital was well in excess of all RBC standards at December 31, 2018, 2017, and 2016. Guardian believes that it enjoys a strong capital position in light of its risks and that it is well-positioned to meet policyholder and other obligations.

Existing Surplus Notes

On October 6, 2009, the Company issued Surplus Notes ("2009 Notes") with a principal balance of \$400 million, bearing interest at 7.375%, and a maturity date of September 30, 2039. Proceeds from the issuance of the 2009 Notes were \$392.4 million, net of discounts and fees. The 2009 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by The Bank of New York Mellon as fiscal

agent. Interest on these 2009 Notes is scheduled to be paid semiannually on March 31 and September 30 of each year. The 2009 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2009 Notes are not part of the legal liabilities of the Company. The 2009 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2009 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2009 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2009 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 50 basis points. On December 28, 2017 and January 9, 2018, the Company redeemed 2009 Notes with a principal balance of \$166.9 million and a carrying value of \$165.7 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). The Company paid \$17 million in interest for the years ended December 31, 2018 and \$33 million in December 31, 2017, respectively.

On June 19, 2014 the Company issued Surplus Notes (“2014 Notes”) with a principal balance of \$450 million, bearing interest at 4.875%, and a maturity date of June 19, 2064. Proceeds from the issuance of the 2014 Notes were \$444.6 million, net of discounts and fees. The 2014 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by The Bank of New York Mellon as fiscal agent. Interest on these 2014 Notes is scheduled to be paid semiannually on June 19 and December 19 of each year. The 2014 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2014 Notes are not part of the legal liabilities of the Company. The 2014 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2014 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2014 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2014 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 25 basis points. The Company paid \$22 million in interest for the years ended December 31, 2018 and December 31, 2017, respectively.

On January 24, 2017, the Company issued a Surplus Notes (“2017 Notes”) with a principal balance of \$350 million, bearing interest at 4.850%, and a maturity date of January 24, 2077. Proceeds from the issuance were \$343.6 million, net of discounts and fees. On December 28, 2017 and January 9, 2018, the Company issued an additional amount of the 2017 Notes with a principal balance of \$229.3 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). All of the 2017 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by The Bank of New York Mellon as fiscal agent. Interest on these 2017 Notes is scheduled to be paid semiannually on January 24 and July 24 of each year. The 2017 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2017 Notes are not part of the legal liabilities of the Company. The 2017 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2017 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2017 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2017 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 30 basis points. The Company paid \$28 million in interest for the year ended December 31, 2018 and \$8 million in December 31, 2017, respectively.

The Company completed an exchange transaction in which it issued additional 2017 Notes in exchange for 2009 Notes. The exchange offer was settled predominantly on December 27, 2017 with a minimal amount settling on January 8, 2018. The 2009 Notes had a principal balance of \$166.9 million (\$165.7 million carrying value) and the additional 2017 Notes had a principal balance of \$229.3 million (\$170.5 million carrying value). Of the \$63.6 million discount at the time of the exchange, \$4.8 million pertaining to an inducement for noteholders to exchange

their notes, was recorded as expense on the transaction date along with an increase to the carrying value of 2017 Notes. The remaining \$58.8 million will be charged to the Statutory Basis Statements of Operations over the life of the 2017 Notes.

Funding Agreement-Backed Notes

On April 25, 2018, the Issuer issued \$300 million of FA-Backed Notes under the Program. On May 8, 2017, the Issuer issued \$400 million of FA-Backed Notes under the Program. On April 26, 2016 and October 27, 2016, the Issuer issued \$500 million and \$300 million of FA-Backed Notes, respectively, under the Program. Pursuant to the Program, the Issuer used the proceeds from each sale of FA-Backed Notes to purchase a funding agreement from Guardian, which secure the obligations of the relevant FA-Backed Notes. The Issuer is not a subsidiary or affiliate of Guardian, or any of its subsidiaries or affiliates. While the funding agreements are unsecured obligations of Guardian, the FA-Backed Notes are not obligations of, and will not be guaranteed by, Guardian or any of its subsidiaries or affiliates. Guardian paid \$31.0 million and \$20.9 million in interest on the funding agreements securing the outstanding FA-Backed Notes in the years ended December 31, 2018 and 2017, respectively.

Investments

General

At December 31, 2018, Guardian had \$53.1 billion of invested assets in its general account, an increase of \$2.6 billion from December 31, 2017. At December 31, 2017, Guardian had \$50.5 billion of invested assets in its general account, an increase of \$3.6 billion from December 31, 2016. At December 31, 2016, Guardian had \$46.9 billion of invested assets in its general account, an increase of \$3.7 billion from December 31, 2015. Guardian manages the portfolio of invested assets to support the general account liabilities in light of liability characteristics and risk management considerations.

The following table sets forth Guardian's invested assets in the general account as of the dates indicated:

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
Bonds:						
Public bonds	\$ 25,829	48.7%	\$ 25,493	50.5%	\$ 24,453	52.1%
Private placement bonds	9,751	18.4%	9,236	18.3%	8,211	17.5%
CMBS	2,023	3.8%	1,946	3.9%	1,555	3.3%
Non-Agency RMBS	989	1.9%	856	1.7%	705	1.6%
Asset backed securities/CLO	769	1.4%	594	1.2%	523	1.1%
Total bonds	39,361	74.2%	38,125	75.6%	35,447	75.6%
Preferred stocks	-	0.0%	-	0.0%	40	0.1%
Common stocks—subsidiaries and affiliates	1,150	2.2%	995	2.0%	1,044	2.2%
Common stocks—unaffiliated	661	1.2%	536	1.0%	438	0.9%
Mortgage loans	4,520	8.5%	4,001	7.9%	3,472	7.4%
Policy loans	3,635	6.8%	3,520	7.0%	3,405	7.2%
Real estate	331	0.6%	345	0.7%	374	0.8%
Partnerships and LLCs	2,207	4.2%	1,962	3.9%	1,794	3.8%
Derivatives	37	0.1%	13	0.0%	41	0.1%
Other invested assets ⁽¹⁾	436	0.8%	404	0.8%	42	0.1%
Cash, cash equivalents and short-term investments	732	1.4%	554	1.1%	822	1.8%
Total investments	\$ 53,070	100%	\$ 50,455	100%	\$ 46,919	100%

(1) This line item consists primarily of receivables from broker on securities sold and, in 2018 and 2017, investments in surplus note debentures of other insurance companies. Carrying value of investments is discussed in the Critical Accounting Policies section.

Impairments

Impairments during 2018, 2017 and 2016 totaled \$192 million, \$54 million and \$46 million, respectively. Of the \$192 million for 2018, \$59 million relates to impairments that reduced surplus which were driven primarily by \$39 million for GIS's sale of the DSO business and \$14 million in bonds. The remaining \$133 million relates primarily to \$90 million in investment tax credit investments and \$30 million for private equities. Of the \$54 million for 2017, \$15 million relates to impairments that reduced surplus which consisted of \$11 million in bonds and \$4 million in real estate. The remaining \$39 million was primarily for private equities. In 2016, \$46 million of impairments were taken on private equity limited partnership investments which had no impact on surplus.

Guardian's Investment Strategy

Guardian's principal investment objective is to invest prudently for the long-term and deliver competitive dividends and financial security for its policyholders. Guardian's investment philosophy starts with sound asset allocation strategies, thereby seeking to optimize expected long-term returns within well-defined risk parameters, while benefiting from diversification strategies designed to reduce risk.

Guardian's portfolio managers employ a disciplined investment decision-making process, which is fundamentally based on proprietary research and analysis. Guardian avoids any overreliance on rating agencies or quantitative risk models. Additionally, Guardian's asset liability investment management process carefully integrates asset maturities in a manner consistent with its view of prudent funding of insurance liabilities. Guardian's process is designed to optimize risk/reward profiles and deliver consistent financial results, although this cannot be assured.

Bonds

Bonds consist primarily of government backed securities and high-quality marketable corporate debt securities. Guardian invests a significant portion of its investment funds in high quality publicly traded bonds in order to maintain and manage liquidity and reduce the risk of default in the portfolio.

The NAIC SVO rates investment credit risk based upon the issuer's credit profile. NAIC rating designations range from 1 to 6. An NAIC designation of 1 denotes obligations of the highest quality in which credit risk is at its lowest and the issuer's credit profile is stable; whereas an NAIC designation of 6 is assigned to obligations that are in or near default. Classes 1 and 2 are investment grade, and Classes 3, 4, 5 and 6 are non-investment grade.

The following table sets forth the SVO ratings for Guardian's bond portfolio along with what it believes are the equivalent rating agency designations.

Total Portfolio Credit Quality

NAIC Classes	Rating Agency Equivalent Designation	December 31,								
		2018			2017			2016		
		Carrying Value	Estimated Fair Value	% of Carrying Value	Carrying Value	Estimated Fair Value	% of Carrying Value	Carrying Value	Estimated Fair Value	% of Carrying Value
1	Aaa/Aa/A	\$ 23,122	\$ 23,326	58.7%	\$ 21,653	\$ 23,041	56.8%	\$ 18,135	\$ 18,866	51.2%
2	Baa.....	14,387	14,159	36.6%	14,685	15,374	38.5%	15,006	15,352	42.3%
3	Ba.....	728	697	1.9%	753	756	2.0%	1,200	1,193	3.4%
4	B.....	962	918	2.4%	869	865	2.3%	1,002	1,018	2.8%
5	Caa and lower	160	148	0.4%	164	164	0.4%	102	97	0.3%
6	In or near default	2	2	0.0%	1	2	0.0%	2	4	0.0%
	Total	\$ 39,361	\$ 39,250	100.0%	\$ 38,125	\$ 40,202	100.0%	\$ 35,447	\$ 36,530	100.0%

The tables below set forth the NAIC SVO ratings for Guardian's publicly traded and privately placed portfolios.

Publicly Traded Credit Quality

		December 31,								
		2018			2017			2016		
		(\$ in Millions)								
NAIC Classes	Rating Agency Equivalent Designation	Carrying Value	Estimated Fair Value	% of Carrying Value	Carrying Value	Estimated Fair Value	% of Carrying Value	Carrying Value	Estimated Fair Value	% of Carrying Value
1	Aaa/Aa/A	\$ 20,746	\$ 20,938	70.1%	\$ 19,465	\$ 20,795	67.4%	\$ 16,340	\$ 17,028	60.0%
2	Baa	7,462	7,251	25.2%	8,059	8,609	27.9%	9,109	9,380	33.4%
3	Ba	355	339	1.2%	398	410	1.4%	732	742	2.7%
4	B	896	859	3.0%	818	821	2.8%	968	988	3.6%
5	Caa and lower	149	137	0.5%	148	149	0.5%	85	80	0.3%
6	In or near default	<u>2</u>	<u>2</u>	0.0%	<u>1</u>	<u>2</u>	0.0%	<u>2</u>	<u>4</u>	0.0%
	Total	\$ 29,610	\$ 29,526	100.0%	\$ 28,889	\$ 30,786	100.0%	\$ 27,236	\$ 28,222	100.0%

Privately Placed Credit Quality

		December 31,								
		2018			2017			2016		
		(\$ in Millions)								
NAIC Classes	Rating Agency Equivalent Designation	Carrying Value	Estimated Fair Value	% of Carrying Value	Carrying Value	Estimated Fair Value	% of Carrying Value	Carrying Value	Estimated Fair Value	% of Carrying Value
1	Aaa/Aa/A	\$ 2,376	\$ 2,388	24.4%	\$ 2,188	\$ 2,246	23.7%	\$ 1,795	\$ 1,838	21.9%
2	Baa	6,925	6,908	71.0%	6,627	6,765	71.7%	5,897	5,972	71.8%
3	Ba	373	358	3.8%	355	346	3.8%	468	451	5.7%
4	B	66	59	0.7%	51	44	0.6%	34	30	0.4%
5	Caa and lower	11	11	0.1%	15	15	0.2%	17	17	0.2%
6	In or near default..	<u>0</u>	<u>0</u>	0.0%	<u>0</u>	<u>0</u>	0.0%	<u>0</u>	<u>0</u>	0.0%
	Total	\$ 9,751	\$ 9,724	100.0%	\$ 9,236	\$ 9,416	100.0%	\$ 8,211	\$ 8,308	100.0%

Guardian utilizes its investments in the privately placed portfolio to enhance the value of the overall portfolio, increase diversification, and obtain higher yields than can be earned by investing in comparable quality public market securities. To control risk when utilizing privately placed securities, Guardian relies upon broader access to management information, stronger negotiated protective covenants, call protection features, and a higher level of collateralization than can customarily be achieved in the public market. The strength of the privately placed portfolio is demonstrated by the predominance of NAIC Class 1 and 2 securities.

The following tables summarize Guardian's fixed income securities by maturity.

Fixed Income Securities By Maturity

	December 31,														
	2018					2017					2016				
	Carrying Value	% of Total	Fair Value	% of Total	Gains/ (Losses)	Carrying Value	% of Total	Fair Value	% of Total	Gains/ (Losses)	Carrying Value	% of Total	Fair Value	% of Total	Gains/ (Losses)
	(\$ in Millions)					(\$ in Millions)					(\$ in Millions)				
Due in one year or less	\$ 406	1.0%	\$ 407	1.0%	\$ 1	\$ 461	1.2%	\$ 468	1.2%	\$ 7	\$ 474	1.3%	\$ 492	1.4%	\$ 18
Due after one year through five years	6,718	17.1%	6,697	17.1%	(21)	9,499	24.9%	9,692	24.1%	193	5,339	15.1%	5,528	15.1%	189
Due after five years through ten years	10,494	26.7%	10,259	26.1%	(235)	9,572	25.1%	9,937	24.7%	365	9,571	27.0%	9,621	26.3%	50
Due after ten years	15,314	38.9%	15,323	39.1%	9	12,846	33.7%	14,072	35.0%	1,226	14,169	40.0%	14,810	40.6%	641
Subtotal(1)	32,932	83.7%	32,686	83.3%	(246)	32,378	84.9%	34,169	85.0%	1,791	29,553	83.4%	30,451	83.4%	898
Sinking fund bonds, mortgage-backed securities and asset-backed securities(2)	6,429	16.3%	6,564	16.7%	135	5,747	15.1%	6,033	15.0%	286	5,894	16.6%	6,079	16.6%	185
Total	\$ 39,361	100.0%	\$ 39,250	100.0%	\$ (111)	\$ 38,125	100.0%	\$ 40,202	100.0%	\$ 2,077	\$ 35,447	100.0%	\$ 36,530	100.0%	\$ 1,083

(1) Includes convertible bonds, public and private corporates, U.S. government/agencies, tax exempt and taxable municipals, non-U.S. bonds, and bank loans.

(2) Includes agency and non-agency RMBS pass throughs, asset-backed securities, commercial mortgage-backed securities, and CMOs.

Guardian attempts to diversify its investment portfolio across asset type, industry and issuer in order to reduce the risk of adverse events affecting a single asset type, industry or issuer from having a material negative impact on the portfolio. Additionally, Guardian does not own any Collateralized Debt Obligations ("CDOs"),

Structured Investment Vehicles (“SIVs”), or Asset Backed Commercial Paper. Fixed income securities were diversified by asset category of issuer at December 31, 2018, 2017 and 2016 as set forth in the following tables.

Composition of Fixed Income Securities Portfolio

December 31, 2018					
	Carrying Value	% of Total	Fair Value (\$ in Millions)	% of Total	Gains/ (Losses)
U.S. Treasury securities.....	\$ 1,818.0	4.6%	\$ 1,871.5	4.8%	\$ 53.5
U.S. Government Agencies	2.2	0.0%	2.2	0.0%	-
Obligations of States and Political Subdivisions	2,069.8	5.2%	2,253.3	5.7%	183.5
Debt Securities Issued by Foreign Governments.....	262.1	0.7%	262.5	0.7%	0.4
Corporate Securities:					
U.S. Corporate.....	22,866.2	58.1%	22,559.1	57.5%	(307.1)
Foreign Corporate.....	7,825.8	19.9%	7,793.6	19.9%	(32.2)
Residential Mortgage-Backed Securities:					
Government Agency.....	736.0	1.9%	728.9	1.8%	(7.1)
Non Agency RMBS.....	988.8	2.5%	1,026.6	2.6%	37.8
CMBS	2,023.4	5.1%	1,991.0	5.1%	(32.4)
Asset-Backed Securities	507.9	1.3%	504.9	1.3%	(3.0)
Collateralized Loan Obligations	261.3	0.7%	256.0	0.6%	(5.3)
Total.....	\$ 39,361.5	100.0%	\$ 39,249.6	100.0%	\$ (111.9)

December 31, 2017					
	Carrying Value	% of Total	Fair Value (\$ in Millions)	% of Total	Gains/ (Losses)
U.S. Treasury securities.....	\$ 2,469.8	6.5%	\$ 2,508.4	6.2%	\$ 38.6
U.S. Government Agencies	3.0	0.0%	2.9	0.0%	(0.1)
Obligations of States and Political Subdivisions	2,189.4	5.7%	2,486.8	6.2%	297.4
Debt Securities Issued by Foreign Governments.....	219.9	0.6%	229.0	0.6%	9.1
Corporate Securities:					
U.S. Corporate.....	21,917.5	57.5%	23,217.2	57.8%	1,299.7
Foreign Corporate.....	7,340.7	19.3%	7,717.7	19.2%	377.0
Residential Mortgage-Backed Securities:					
Government Agency.....	588.6	1.5%	593.5	1.5%	4.9
Non Agency RMBS.....	855.9	2.2%	904.9	2.3%	49.0
CMBS	1,945.7	5.1%	1,945.8	4.8%	0.1
Asset-Backed Securities	382.2	1.0%	381.4	0.9%	(0.8)
Collateralized Loan Obligations.....	212.0	0.6%	214.7	0.5%	2.7
Total.....	\$ 38,124.7	100.0%	\$ 40,202.3	100.0%	\$ 2,077.6

December 31, 2016					
	Carrying Value	% of Total	Fair Value (\$ in Millions)	% of Total	Gains/ (Losses)
U.S. Treasury securities.....	\$ 1,597.5	4.5%	\$ 1,571.7	4.3%	\$ (25.8)
U.S. Government Agencies	3.7	0.0%	3.6	0.0%	(0.1)
Obligations of States and Political Subdivisions	2,246.0	6.3%	2,462.4	6.8%	216.4
Debt Securities Issued by Foreign Governments.....	209.2	0.6%	210.5	0.6%	1.3
Corporate Securities:					
U.S. Corporate.....	21,114.7	59.5%	21,803.8	59.7%	689.1
Foreign Corporate.....	6,828.1	19.3%	7,024.1	19.2%	196.0
Residential Mortgage-Backed Securities:					
Government Agency.....	666.3	1.9%	672.9	1.8%	6.6
Non Agency RMBS.....	704.9	2.0%	715.0	2.0%	10.1

	December 31, 2016				
	Carrying Value	% of Total	Fair Value (\$ in Millions)	% of Total	Gains/ (Losses)
CMBS	1,554.8	4.4%	1,546.1	4.2%	(8.7)
Asset-Backed Securities	339.5	1.0%	337.5	0.9%	(2.0)
Collateralized Loan Obligations	182.7	0.5%	182.6	0.5%	(0.1)
Total	<u>\$ 35,447.4</u>	<u>100.0%</u>	<u>\$ 36,530.2</u>	<u>100.0%</u>	<u>\$ 1,082.8</u>

Guardian's corporate credit portfolio is well diversified. Guardian has aggregate per issuer limits to attempt to limit the maximum exposure to an issuer to a set percentage of the securities portfolio. This reduces the impact of default risk or of a single issuer having a material negative impact on the portfolio.

Mortgage-Backed and Other Asset-Backed Securities (Structured Securities)

Asset Backed, Commercial Mortgage Backed, Collateralized Loan Obligations and Residential Mortgage Backed Securities (Structured Securities) of \$4.5 billion consist mainly (88.8% as of December 31, 2018) of Agency and Non-Agency RMBS as well as CMBS and CLOs of generally high quality, which are supported by well diversified collateral.

Asset Backed, Commercial Mortgage Backed, Collateralized Loan Obligations and Residential Mortgage Backed Securities (Structured Securities) of \$4.0 billion consist mainly (90.4% as of December 31, 2017) of Agency and Non-Agency RMBS as well as CMBS and CLOs of generally high quality, which are supported by well diversified collateral.

Asset Backed, Commercial Mortgage Backed, Collateralized Loan Obligations and Residential Mortgage Backed Securities (Structured Securities) of \$3.4 billion consist mainly (90.2% as of December 31, 2016) of Agency and Non-Agency RMBS as well as CMBS and CLO's of generally high quality, which are supported by well diversified collateral. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Analysis of Results of Operations—For the Years Ended December 31, 2018, 2017 and 2016—Net Realized Capital Gains After Tax and Transfers to IMR" for additional information regarding RMBS held in Guardian's investment portfolio.

As of December 31, 2018, Guardian had no direct subprime exposure through the origination of residential mortgage loans or purchases of securitized whole-loan pools. As of December 31, 2018, December 31, 2017 and December 31, 2016, Guardian had Agency (Fannie Mae or Freddie Mac) mortgage backed exposure with a carrying value of \$736 million, \$589 million and \$666 million, respectively.

The following tables show the types of mortgage-backed and asset-backed securities held as of December 31, 2018, 2017 and 2016.

	December 31, 2018												
	Carrying Value	% of Total	Fair Value	% of Total	Gains/ (Losses)	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Total	
	(\$ in Millions)			Carrying Value (\$ in Millions)									
Residential Mortgage-Backed Securities:													
Government Agency	\$ 736.0	16.3%	\$ 728.9	16.1%	\$ (7.1)	\$ 736.0	—	—	—	—	—	\$ 736.0	
Non-Agency RMBS	988.8	21.9%	1,026.6	22.8%	37.8	881.0	65.5	3.4	37.2	—	1.7	988.8	
CMBS	2,023.4	44.8%	1,991.0	44.2%	(32.4)	2,023.4	—	—	—	—	—	2,023.4	
Asset Backed Securities (ABS)	507.9	11.2%	504.9	11.2%	(3.0)	446.7	61.2	—	—	—	—	507.9	
Collateralized Loan Obligations (CLO)	261.3	5.8%	256.0	5.7%	(5.3)	261.3	—	—	—	—	—	261.3	
Total	<u>\$ 4,517.4</u>	<u>100.0%</u>	<u>\$ 4,507.4</u>	<u>100.0%</u>	<u>\$ (10.0)</u>	<u>\$ 4,348.4</u>	<u>\$ 126.7</u>	<u>\$ 3.4</u>	<u>\$ 37.2</u>	<u>\$ —</u>	<u>\$ 1.7</u>	<u>\$ 4,517.4</u>	

December 31, 2017												
	Carrying	% of	Fair	% of	Gains/	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Total
	Value	Total	Value	Total	(Losses)							
	(\$ in Millions)					Carrying Value (\$ in Millions)						
Residential Mortgage-Backed Securities:												
Government Agency.....	\$ 588.6	14.8%	\$ 593.5	14.7%	\$ 4.9	\$ 588.6	—	—	—	—	—	\$ 588.6
Non-Agency RMBS	855.9	21.5%	904.9	22.4%	49.0	822.5	22.0	7.8	0.9	2.7	—	855.9
CMBS.....	1,945.7	48.8%	1,945.8	48.2%	(4.7)	1,945.7	—	—	—	—	—	1,945.7
Asset Backed Securities (ABS).....	382.3	9.6%	381.5	9.4%	(2.1)	322.8	58.5	1.0	—	—	—	382.3
Collateralized Loan Obligations (CLO).....	212.0	5.3%	214.7	5.3%	(0.1)	212.0	—	—	—	—	—	212.0
Total.....	\$ 3,984.5	100.0%	\$ 4,040.4	100.0%	\$ (9.8)	\$ 3,891.6	\$ 80.5	\$ 8.8	\$ 0.9	\$ 2.7	\$ —	\$ 3,984.5

December 31, 2016												
	Carrying	% of	Fair	% of	Gains/	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Total
	Value	Total	Value	Total	(Losses)							
	(\$ in Millions)					Carrying Value (\$ in Millions)						
Residential Mortgage-Backed Securities:												
Government Agency.....	\$ 666.3	19.3%	\$ 672.9	19.4%	\$ 6.6	\$ 666.3	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 666.3
Non-Agency RMBS	704.9	20.5%	715.0	20.7%	10.1	699.6	5.3	—	—	—	—	704.9
CMBS.....	1,554.8	45.1%	1,546.1	44.8%	(4.7)	1,554.8	—	—	—	—	—	1,554.8
Asset Backed Securities (ABS).....	339.6	9.8%	337.5	9.8%	(2.1)	290.3	49.3	—	—	—	—	339.6
Collateralized Loan Obligations (CLO).....	182.7	5.3%	182.6	5.3%	(0.1)	182.7	—	—	—	—	—	182.7
Total.....	\$ 3,448.3	100.0%	\$ 3,454.1	100.0%	\$ (9.8)	\$ 3,393.7	\$ 54.6	\$ —	\$ —	\$ —	\$ —	\$ 3,448.3

Bond Portfolio Surveillance and Under-Performing Investments

Generally, bonds are valued at amortized cost using the constant yield interest method. Bond transactions are recorded on a trade date basis, except for private placement bonds which are recorded on the funding date.

The fair value of bonds is based on values provided by the NAIC's SVO when available. If SVO values are not available, quoted market values provided by other third-party organizations are used. If quoted market values are unavailable, fair value is estimated by discounting expected future cash flows using current market rates applicable to yield, credit quality, and maturity of the investment or using quoted market values for comparable investments.

Guardian actively manages portfolio risks and provides a daily mark-to-market valuation for all of its public securities. Daily total rates of return are calculated on this actively managed portfolio and a performance attribution review is performed on a quarterly basis. Credit risk analysis is ongoing.

To identify underperforming investments, Guardian conducts a semi-annual management review of all bonds including those in default, not-in-good standing, or valued below 80% of cost. In addition, a credit report is provided quarterly with other investment related materials and reviewed with the Investment Committee of the Board. Guardian considers the following factors in the evaluation of whether a non-interest related decline in value is other-than-temporary: (a) the financial condition and near-term prospects of the issuer; (b) the likelihood that Guardian will be able to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition; (c) its ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value and (d) the period and degree to which the market value has been below cost. Guardian considers the following factors in the evaluation of whether an interest related decline in value is other-than-temporary: (a) its near-term intent to sell; (b) its contractual and regulatory obligations and (c) its ability to hold the investment until anticipated recovery of the cost of the investment.

Additionally, Guardian considers qualitative and quantitative factors such as material declines in issuer revenues or margins, significant uncertainty regarding the issuer's industry, debt service coverage or cash flow ratios that fall below industry-specific thresholds, violation of financial covenants, trading of public securities at a substantial discount due to specific credit concerns, and other subjective factors that relate to the issuer.

Guardian actively reviews the bond portfolio to estimate the likelihood and amount of financial defaults or write-downs in the portfolio and to make timely decisions as to the potential sale or renegotiation of terms of specific investments.

Guardian employs a systematic methodology to evaluate declines in fair value below book value. The methodology to evaluate declines in fair value utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines is evaluated in a disciplined manner. The book values of investments are written down to fair value when a decline in value is considered to be other-than-temporary. See “—Impairments.”

Common Stocks

Guardian’s common stocks include investments in public equities, mutual funds, and the net equity in unconsolidated subsidiaries and affiliates. Investments in insurance subsidiaries are stated at underlying statutory surplus adjusted for unamortized goodwill.

The table below details the carrying value of common stocks of Guardian’s unaffiliated and affiliated companies as of the dates indicated:

	As of December 31,		
	2018	2017	2016
	(\$ in Millions)		
Common Stocks – Unaffiliated ⁽¹⁾	\$ 661	\$ 536	\$ 438
Investment in Affiliates:			
BLICOA	\$ 193	\$ 189	\$ 202
GIAC	455	310	260
Park Avenue Life Insurance Company	50	41	64
Other Affiliated Companies.....	452	455	518
Total Investment in Affiliates:	<u>\$ 1,150</u>	<u>\$ 995</u>	<u>\$ 1,044</u>

(1) See “—Statement of Financial Position—Assets” for a discussion of the change in common stocks during 2018 as compared to 2017 and 2016.

Mortgage Loans

Mortgage loans represented 8.5% of the total investments in the general account as of December 31, 2018, 7.9% of the total investments in the general account as of December 31, 2017 and 7.4% of the total investments in the general account as of December 31, 2016. Mortgage loans consist of whole loans on commercial real estate.

Commercial Mortgage Loans

Guardian’s commercial mortgage loan portfolio, which includes mezzanine loans, consisted of fixed rate loans on completed, income-producing properties.

As of December 31, 2018, 2017 and 2016, 98%, 97% and 96%, respectively, of the commercial mortgage loan portfolio consisted of bullet loans. Bullet loans are loans that do not fully amortize over their term.

Guardian had 32 bullet loans totaling \$268 million scheduled to mature during 2018. As of December 31, 2018, 30 loans were paid in full for \$256 million, 2 loans were extended for \$12 million and 2 loans for \$15 million, or 6%, was rolled over voluntarily. Past experience with regard to bullet maturities, however, is not necessarily indicative of future results. Guardian had no mortgage loans with a valuation allowance as of December 31, 2018.

The maturities of Guardian’s commercial mortgage loans are well-diversified as per the table below, and Guardian carefully monitors and manages them in light of its liquidity position.

The following tables set forth the commercial mortgage loan portfolio by maturity:

Commercial Loans by Maturity

As of December 31, 2018			
Year of Maturity	Carrying Value (\$ in millions)	Number of Loans	Percent
2019.....	\$ 32.6	9	0.7%
2020.....	173.2	14	3.8%
2021.....	244.5	26	5.4%
2022.....	498.4	22	11.0%
2023.....	513.3	20	11.4%
2024.....	396.5	20	8.8%
2025.....	943.3	43	20.9%
2026.....	356.0	20	7.9%
2027.....	763.6	45	16.9%
2028.....	167.9	13	3.7%
2029.....	227.7	6	5.0%
2030.....	36.8	1	0.8%
2031.....	114.4	6	2.5%
2034.....	43.3	1	1.0%
2036.....	8.9	1	0.2%
Total.....	\$ 4,520.4	247	100.0%

As of December 31, 2017			
Year of Maturity	Carrying Value (\$ in millions)	Number of Loans	Percent
2018.....	\$ 269.2	38	6.7%
2019.....	67.3	12	1.7%
2020.....	210.9	16	5.3%
2021.....	255.1	27	6.4%
2022.....	510.0	23	12.7%
2023.....	422.7	18	10.6%
2024.....	369.3	22	9.2%
2025.....	570.3	29	14.3%
2026.....	366.9	21	9.2%
2027.....	721.9	45	18.0%
2028.....	34.6	1	0.9%
2029.....	33.3	2	0.8%
2031.....	114.4	6	2.9%
2034.....	45.4	1	1.1%
2036.....	9.3	1	0.2%
Total.....	\$ 4,000.6	262	100.0%

As of December 31, 2016			
Year of Maturity	Carrying Value (\$ in millions)	Number of Loans	Percent
2017.....	\$ 241.8	26	7.0%
2018.....	349.8	47	10.1%
2019.....	80.3	15	2.3%
2020.....	255.8	19	7.4%
2021.....	326.2	29	9.4%
2022.....	411.3	22	11.8%
2023.....	241.3	15	7.0%
2024.....	280.6	19	8.1%
2025.....	569.0	29	16.4%
2026.....	364.1	21	10.5%
2027.....	110.0	4	3.2%
2028.....	35.3	1	1.0%
2029.....	21.8	1	0.6%

As of December 31, 2016			
Year of Maturity	Carrying Value (\$ in millions)	Number of Loans	Percent
2031	127.3	7	3.7%
2034	47.4	1	1.4%
2036	<u>9.6</u>	<u>1</u>	<u>0.3%</u>
Total	<u>\$ 3,471.6</u>	<u>257</u>	<u>100.0%</u>

The following tables set forth the commercial mortgage loan portfolio by property type and geographic distribution:

Commercial Loans by Property Type

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
Office	\$ 398.5	8.8%	\$ 515.3	12.9%	\$ 609.5	17.6%
Apartments	2,311.8	51.1%	1,872.5	46.8%	1,463.6	42.2%
Industrial & other	595.3	13.2%	313.8	7.8%	365.9	10.5%
Retail	1,042.0	23.1%	1,122.8	28.1%	853.1	24.6%
Hotels	<u>172.8</u>	<u>3.8%</u>	<u>176.2</u>	<u>4.4%</u>	<u>179.5</u>	<u>5.2%</u>
Total	<u>\$ 4,520.4</u>	<u>100.0%</u>	<u>\$ 4,000.6</u>	<u>100.0%</u>	<u>\$ 3,471.6</u>	<u>100.0%</u>

Commercial Loans by Geographic Distribution

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
New England ⁽¹⁾	\$ 299.7	6.6%	\$ 269.6	6.7%	\$ 190.9	5.5%
Mid Atlantic ⁽²⁾	593.0	13.1%	530.8	13.3%	552.8	15.9%
South Atlantic ⁽³⁾	1,180.3	26.1%	1,033.6	25.8%	836.4	24.1%
East North Central ⁽⁴⁾	176.8	3.9%	126.3	3.1%	123.2	3.5%
East South Central ⁽⁵⁾	117.6	2.6%	118.4	3.0%	55.6	1.6%
West North Central ⁽⁶⁾	56.6	1.3%	9.3	0.2%	10.2	0.3%
West South Central ⁽⁷⁾	600.9	13.3%	350.6	8.8%	227.2	6.5%
Mountain ⁽⁸⁾	152.2	3.4%	171.4	4.3%	133.8	3.9%
Pacific ⁽⁹⁾	<u>1,343.3</u>	<u>29.7%</u>	<u>1,390.6</u>	<u>34.8%</u>	<u>1,341.4</u>	<u>38.6%</u>
Total	<u>\$ 4,520.4</u>	<u>100.0%</u>	<u>\$ 4,000.6</u>	<u>100.0%</u>	<u>\$ 3,471.6</u>	<u>100.0%</u>

- (1) New England states are CT, MA, ME, NH, RI and VT.
- (2) Mid-Atlantic states are PA, NJ and NY.
- (3) South Atlantic states are DE, DC, FL, GA, MD, NC, SC, VA and WV.
- (4) East North Central states are IL, IN, MI, OH and WI.
- (5) East South Central states are AL, KY, MS and TN.
- (6) West North Central states are IA, KS, MN, MO, NE, ND and SD.
- (7) West South Central states are AR, LA, OK and TX.
- (8) Mountain Region states are AZ, CO, ID, MT, NV, NM, UT and WY.
- (9) Pacific Region states are AK, CA, HI, OR and WA.

Guardian's commercial mortgage whole loan exposure to Nevada (\$33 million), Arizona (\$10 million), Florida (\$363 million) and California (\$1,055 million) totaled \$1.5 billion. This represents 32.3% of the total commercial mortgage whole loan portfolio and this aggregation has an average loan-to-value ("LTV") of 49.4% as compared to 50.4% for the entire commercial mortgage whole loan portfolio. These loans are performing well with no delinquencies.

The following tables set forth the commercial loan portfolio by LTV range, year of origination and delinquency rate:

Commercial Mortgage Loans by LTV Range(1)

As of December 31, 2018				
	Carrying Value	Number of Loans	Average Loan Amount	Percent of Portfolio
50% LTV or below	\$ 1,122.2	108	\$ 10.4	24.8%
51%–60% LTV	1,843.8	82	22.5	40.8%
61%–70% LTV	1,320.6	48	27.5	29.2%
71%–75% LTV	233.8	9	26.0	5.2%
75%–80% LTV	–	–	–	–
Greater than 80% LTV	–	–	–	–
Total	\$ 4,520.4	247	\$ 18.3	100.0%

As of December 31, 2017				
	Carrying Value	Number of Loans	Average Loan Amount	Percent of Portfolio
50% LTV or below	\$ 1,221.8	125	\$ 9.8	30.5%
51%–60% LTV	1,382.7	72	19.2	34.6%
61%–70% LTV	1,150.1	50	23.0	28.7%
71%–75% LTV	203.0	12	16.9	5.1%
75%–80% LTV	43.0	3	14.3	1.1%
Greater than 80% LTV	–	–	–	–
Total	\$ 4,000.6	262	\$ 15.3	100.0%

As of December 31, 2016				
	Carrying Value	Number of Loans	Average Loan Amount	Percent of Portfolio
50% LTV or below	\$ 1,116.8	125	\$ 8.9	32.2%
51%–60% LTV	1,040.1	58	17.9	30.0%
61%–70% LTV	1,005.8	53	19.0	29.0%
71%–75% LTV	198.4	11	18.0	5.7%
75%–80% LTV	63.7	7	9.1	1.8%
Greater than 80% LTV	46.9	3	15.6	1.4%
Total	\$ 3,471.6	257	\$ 13.5	100.0%

(1) The LTV represents the year end 2018 loan balance divided by the value of the property utilizing the most recent property financial statements. The value of the property is based on the 2017 year end property net operating income divided by a market capitalization rate. 2018 financial information for such properties is not generally available until the second or third quarter of 2019.

The following tables set forth the carrying value of the commercial loan portfolio by property type and vintage:

Carrying Value of Commercial Mortgage Loans

As of December 31, 2018										
	2010 & Prior	2011	2012	2013	2014	2015	2016	2017	2018	Total
	(\$ in Millions)									
Office	\$ 74.2	\$ 4.3	\$ 17.3	\$ 3.2	\$ 6.7	\$ 171.1	\$ 35.1	\$ 12.5	\$ 74.1	\$ 398.5
Apartments	34.3	30.1	122.1	109.1	193.2	351.6	397.1	557.3	516.9	2,311.7
Industrial	36.0	6.1	–	7.4	58.0	–	–	84.4	302.1	494.0
Retail	129.5	25.6	69.9	10.7	88.8	135.7	140.7	387.8	53.3	1,042.0
Hotels	–	–	–	–	–	72.9	99.9	–	–	172.8
Other	24.2	–	26.5	–	23.0	27.7	–	–	–	101.4
Total	\$ 298.2	\$ 66.1	\$ 235.8	\$ 130.4	\$ 369.7	\$ 759.0	\$ 672.8	\$ 1,042.0	\$ 946.4	\$ 4,520.4

As of December 31, 2017

	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	Total
	(\$ in Millions)									
Office	\$ 225.7	\$ 35.9	\$ 4.5	\$ 17.9	\$ 3.4	\$ 6.9	\$ 172.9	\$ 35.3	\$ 12.8	\$ 515.3
Apartments	54.4	14.3	35.4	124.1	160.2	204.9	354.3	367.6	557.3	1,872.5
Industrial	51.2	–	6.5	–	7.7	59.3	–	–	84.4	209.1
Retail	256.3	–	26.4	71.8	10.9	90.7	137.4	141.3	388.0	1,122.8
Hotels	–	–	–	–	–	–	73.5	102.7	–	176.2
Other	26.7	–	–	27.1	–	23.0	27.9	–	–	104.7
Total	\$ 614.3	\$ 50.2	\$ 72.8	\$ 240.9	\$ 182.2	\$ 384.8	\$ 766.0	\$ 646.9	\$ 1,042.5	\$4,000.6

As of December 31, 2016

	2008 & Prior	2009	2010	2011	2012	2013	2014	2015	2016	Total
	(\$ in Millions)									
Office	\$ 335.6	\$ 48.5	\$ 36.7	\$ 4.7	\$ 34.5	\$ 3.6	\$ –	\$ 115.5	\$ 30.5	\$ 609.5
Apartments	71.5	–	31.7	65.2	126.0	212.8	219.4	373.1	363.8	1,463.6
Industrial	102.1	3.8	–	6.8	4.9	7.9	60.6	–	–	186.2
Retail	354.9	–	–	27.2	73.6	11.2	92.6	139.1	154.6	853.1
Hotels	–	–	–	–	–	–	–	74.0	105.5	179.5
Other	3.3	24.9	–	–	27.7	1.7	30.0	87.0	5.1	179.7
Total	\$ 867.3	\$ 77.2	\$ 68.4	\$ 104.0	\$ 266.8	\$ 237.1	\$ 402.5	\$ 788.8	\$ 659.5	\$3,471.6

Residential Mortgage Loans

Guardian does not currently originate residential mortgages.

Mortgage Loan Portfolio Surveillance and Under-Performing Investments

Guardian actively monitors, manages, and directly services its commercial mortgage loan portfolio. Guardian performs or reviews all aspects of loan origination and portfolio management, including lease analysis, property transfer analysis, economic and financial reviews, tenant analysis, and management of default and bankruptcy proceedings.

Guardian's \$4.5 billion commercial mortgage loan portfolio as of December 31, 2018 is well-diversified geographically and by property type. Guardian's underwriting seeks to effectively protect the company from cyclical market challenges. The portfolio's current delinquency rate is 0%. Guardian utilized what it considers to be conservative underwriting and valuation standards in originating loans and anticipates that the portfolio should continue to perform well relative to the industry. In monitoring and evaluating the portfolio, Guardian has used models and stress tests, including interest rate shock and severe recession scenarios, using CoStar Portfolio Strategy risk model, a provider of real estate market consulting services focusing on real estate market analysis and forecasting. Guardian recently stress tested the individual loan values in the \$4.5 billion commercial mortgage whole loan portfolio by employing increased vacancy rates and higher capitalization rates reflective of deteriorating market conditions. Even under these stress tests, the majority of the assets that secure Guardian's mortgages continue to support the debt service, with a minimal amount of projected loss. However, given the inherent limitations and underlying assumptions of quantitative modeling, there can be no assurances of Guardian's ability to maintain sufficient liquidity under actual liquidity needs.

Guardian revalues underperforming properties each year and reinspects these properties at least every other year based on internal quality ratings. The criteria used to determine whether a current or potential problem exists includes borrower bankruptcies, major tenant bankruptcies, requests for restructuring, delinquent tax payments, late payments, loan-to-value or debt service coverage deficiencies, and overall vacancy levels.

There were no current or potential problem mortgage loans consisting of restructured mortgage loans as of December 31, 2018, 2017 and 2016. There were no commercial mortgage loans in process of foreclosure or in default as of December 31, 2018, 2017 and 2016. The AVR contains a mortgage loan component, which totaled \$37

million, \$32 million and \$31 million as of December 31, 2018, December 31, 2017 and December 31, 2016, respectively. See “Investment Reserves.”

Real Estate

Guardian’s real estate portfolio includes real estate properties it occupies and real estate it originally acquired as investments or through foreclosure or deed in lieu of foreclosure. As of December 31, 2018, Guardian had 1 property in its portfolio that was acquired via foreclosure during 2018. As of December 31, 2017, Guardian had 2 properties in its portfolio that were acquired via foreclosure during 2017. As of December 31, 2016, Guardian did not have any foreclosed real estate.

The following tables illustrate the diversity of Guardian’s real estate portfolio by property type and geographic distribution:

Real Estate Property by Property Type (Excludes Home Office Properties)

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
Office.....	\$ 114.0	34.8%	\$ 81.3	23.8%	\$ 56.5	15.7%
Apartments.....	175.7	53.6%	182.8	53.6%	222.4	61.6%
Industrial & other.....	38.0	11.6%	76.9	22.6%	78.4	21.7%
Retail.....	0.0	0.0%	0.0	0.0%	3.7	1.0%
Hotels.....	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	<u>\$ 327.7</u>	<u>100.0%</u>	<u>\$ 341.0</u>	<u>100.0%</u>	<u>\$ 361.0</u>	<u>100.0%</u>

Real Estate by Geographic Distribution (Excludes Home Office Properties)

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
New England ⁽¹⁾	\$ 59.7	18.2%	\$ 61.9	18.2%	\$ 63.2	17.5%
Mid Atlantic ⁽²⁾	–	0.0%	–	0.0%	–	0.0%
South Atlantic ⁽³⁾	109.1	33.3%	97.1	28.4%	103.7	28.7%
East North Central ⁽⁴⁾	26.8	8.2%	26.1	7.7%	–	0.0%
East South Central ⁽⁵⁾	–	0.0%	–	0.0%	–	0.0%
West North Central ⁽⁶⁾	–	0.0%	–	0.0%	–	0.0%
West South Central ⁽⁷⁾	–	0.0%	–	0.0%	–	0.0%
Mountain ⁽⁸⁾	–	0.0%	–	0.0%	–	0.0%
Pacific ⁽⁹⁾	132.1	40.3%	155.9	45.7%	194.1	53.8%
Total	<u>\$ 327.7</u>	<u>100.0%</u>	<u>\$ 341.0</u>	<u>100.0%</u>	<u>\$ 361.0</u>	<u>100.0%</u>

- (1) New England states are CT, MA, ME, NH, RI and VT.
- (2) Mid-Atlantic states are PA, NJ and NY.
- (3) South Atlantic states are DE, DC, FL, GA, MD, NC, SC, VA and WV.
- (4) East North Central states are IL, IN, MI, OH and WI.
- (5) East South Central states are AL, KY, MS and TN.
- (6) West North Central states are IA, KS, MN, MO, NE, ND and SD.
- (7) West South Central states are AR, LA, OK and TX.
- (8) Mountain Region states are AZ, CO, ID, MT, NV, NM, UT and WY.
- (9) Pacific Region states are AK, CA, HI, OR and WA.

As of December 31, 2018, Guardian’s real estate portfolio consisted of 18 properties with a statement value of \$331 million, of which \$3 million was occupied by Guardian. As of December 31, 2017, Guardian’s real estate portfolio consisted of 21 properties with a statement value of \$345 million, of which \$4 million was occupied by Guardian. As of December 31, 2016, Guardian’s real estate portfolio consisted of 25 properties with a statement

value of \$374 million, of which \$13 million was occupied by Guardian. The portfolio uses leverage to increase return, with \$212 million, \$270 million and \$219 million in third party non-recourse debt outstanding as of December 31, 2018, 2017 and 2016, respectively.

Guardian reviews individual property valuations on an annual basis. Internal valuations are conducted by Guardian's Asset Managers. Appropriate appraisal valuation methodologies are employed on a case-by-case basis (including Income Approach, Sales Comparison Approach and Cost Approach). Guardian reviews these valuations for technical accuracy, methodology, and the appropriateness of the assumed rates of return. Generally, external valuations are conducted on an ad hoc basis as determined by management or joint venture ownership requirements. As of December 31, 2018, Guardian's real estate and other invested asset AVR totaled \$399 million.

Private Equity Limited Partnership Investments by Type

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
Private Equity Investments	\$ 1,401	62.4%	\$ 1,080	54.7%	\$ 922	50.2%
Real Estate Investments	45	2.0	29	1.5	132	7.2
Hedge Funds	-	-	-	-	-	-
Other Alternative Investments	78	3.5	41	2.0	71	3.9
Affiliated LLCs.....	720	32.1	824	41.8	710	38.7
Total	\$ 2,244	100.0%	\$ 1,974	100.0%	\$ 1,835	100.0%

Real Estate Joint Ventures by Property Type

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
Office	\$ 15.6	51.5%	\$ 15.3	100.0%	\$ 34.1	35.4%
Apartments.....	14.7	48.5%	0.0	0.0%	16.3	16.9%
Industrial & other.....	0.0	0.0%	0.0	0.0%	0.0	0.0%
Retail.....	0.0	0.0%	0.0	0.0%	46.0	47.7%
Hotels.....	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	\$ 30.3	100.0%	\$ 15.3	100.0%	\$ 96.4	100.0%

Real Estate Joint Ventures by Geographic Distribution

	December 31,					
	2018		2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(\$ in Millions)					
New England ⁽¹⁾	\$ 14.7	48.5%	\$ -	0.0%	\$ -	0.0%
Mid Atlantic ⁽²⁾	15.6	51.5%	15.3	100.0%	14.9	15.5%
South Atlantic ⁽³⁾	-	0.0%	-	0.0%	46.0	47.7%
East North Central ⁽⁴⁾	-	0.0%	-	0.0%	19.2	19.9%
East South Central ⁽⁵⁾	-	0.0%	-	0.0%	-	0.0%
West North Central ⁽⁶⁾	-	0.0%	-	0.0%	-	0.0%
West South Central ⁽⁷⁾	-	0.0%	-	0.0%	4.7	4.9%
Mountain ⁽⁸⁾	-	0.0%	-	0.0%	-	0.0%
Pacific ⁽⁹⁾	-	0.0%	-	0.0%	11.6	12.0%
Other ⁽¹⁰⁾	-	0.0%	-	0.0%	-	0.0%
Total	\$ 30.3	100.0%	\$ 15.3	100.0%	\$ 96.4	100.0%

(1) New England states are CT, MA, ME, NH, RI and VT.

- (2) Mid-Atlantic states are PA, NJ and NY.
- (3) South Atlantic states are DE, DC, FL, GA, MD, NC, SC, VA and WV.
- (4) East North Central states are IL, IN, MI, OH and WI.
- (5) East South Central states are AL, KY, MS and TN.
- (6) West North Central states are IA, KS, MN, MO, NE, ND and SD.
- (7) West South Central states are AR, LA, OK and TX.
- (8) Mountain Region states are AZ, CO, ID, MT, NV, NM, UT and WY.
- (9) Pacific Region states are AK, CA, HI, OR and WA.

Note: The reduction in the 2016 real estate joint ventures in the three prior tables resulted from transfers to a wholly-owned subsidiary (GIS - \$234 million in real estate joint venture assets as of December 31, 2016).

Derivatives

Derivative instruments are used to attempt to manage Guardian's exposure to fluctuations in interest rates, foreign currency risk, credit risk and equity market risk. A variety of derivative instruments are used including futures, swaps, and foreign exchange forward contracts, among others.

The following table summarizes the notional amount and estimated fair value by derivative type for the periods indicated:

	Notional Amount			Estimated Fair Value Asset/(Liability)		
	December 31,			December 31,		
	2018	2017	2016	2018	2017	2016
	(\$ in Millions)					
Foreign currency swaps.....	\$ 1,009.8	\$ 816.2	\$ 435.0	\$ 9.7	\$ (52.7)	\$ 16.9
Currency forwards.....	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0
Credit default swaps.....	\$ 0.0	\$ 0.0	\$ 950.0	\$ 0.0	\$ 0.0	\$ (14.7)
Exchange traded futures ⁽¹⁾ ...	\$ 601.2	\$ 367.9	\$ 649.6			
Equity Index Options	\$ 25.3	\$ 10.2	\$ 1.5	\$ 0.1	\$ 0.2	\$ 0.0

- (1) Futures fair value (Variation Margin) is settled daily in full.

Policy Loans

Policy loans are permitted to the extent of such policy's contractual limits. Policy loans represent loans to a policyholder on the security of the cash surrender value of the policy. As of December 31, 2018, December 31, 2017 and December 31, 2016, the policy loan balance was \$3.635 billion, \$3.520 billion and \$3.405 billion, respectively. All policy loans are at fixed interest rates. The interest rates range from 4.0% to 8.0%, with over 95% of the loans at 8%.

Cash, Cash Equivalents and Short-term Investments

Cash includes amounts on deposit with banks. Cash equivalents are stated at amortized cost and consist of liquid investments having maturities of three months or less at time of purchase. Short-term investments, including money market funds, are stated at cost or amortized cost and consist primarily of investments having maturities greater than three months from date of purchase, but less than one year to maturity. Fair values for such investments approximate carrying value. The following table details cash, cash equivalents and short-term investments for the periods indicated.

Cash, Cash Equivalents and Short-term Investments

	December 31,		
	2018	2017	2016
	(\$ in Millions)		
Cash in banks	\$ (41)	\$ (26)	\$ 6
Cash Equivalents:			
Repos and commercial paper.....	703	25	<u>790</u>
Total Cash and Cash Equivalents.....	662	(1)	<u>796</u>
Short-Term Investments:			
Money market funds and treasury bills.....	<u>70</u>	<u>555</u>	<u>26</u>
Totals	<u>\$ 732</u>	<u>\$ 554</u>	<u>\$ 822</u>

Investment Reserves

Guardian establishes and records write-downs or investment reserves in accordance with statutory practice.

Guardian determines the fair value of bonds in accordance with principles established by the SVO using criteria that include the net worth and capital structure of the borrower, the value of the collateral, the presence of additional credit support, and its evaluation of the borrower's ability to compete in a relevant market.

In the case of real estate and commercial mortgage loans, Guardian makes borrower and property-specific assessments as well.

In compliance with regulatory requirements, Guardian maintains an AVR. The AVR is a contingency reserve to offset potential losses of stocks, real estate investments, partnerships and LLCs, as well as credit-related declines in bonds, mortgage loans and derivatives.

As of December 31, 2018, the AVR totaled \$879 million, which represents a 6.1% increase from December 31, 2017. As of December 31, 2017, the AVR totaled \$829 million, which represents a 2.4% increase from December 31, 2016. This increase was primarily due to the required basic contribution that is part of the AVR calculation. The AVR is currently at 98.6% of its maximum level of reserve.

Quantitative and Qualitative Information about Market Risk

All non-guaranteed separate account assets and liabilities have been excluded from the following discussion since all market risks associated with those accounts are assumed by GIAC contract holders.

Assets, such as bonds, stocks, mortgage loans on real estate, policy loans, and derivatives are financial instruments, which are subject to the risk of market volatility and potential market disruptions. These risks may reduce the value of Guardian's financial instruments or impact future cash flows and earnings from those instruments.

Guardian's primary market risk exposure is changes in interest rates, which can cause changes in the fair value, cash flows, and earnings of certain financial instruments. To manage its exposure to interest rate changes, Guardian uses what it believes to be sophisticated quantitative asset/liability management techniques designed to match the market sensitivity of assets with the liabilities they support to reduce the net economic impact to changes in interest rates. In addition, Guardian invests a significant portion of its investment allocation in high quality bonds in order to maintain and manage liquidity and reduce the risk of default in the portfolio.

See "—Hedging Programs."

GIAC stopped selling VAs with living benefit riders as of February 17, 2017. The VAs that are purchased with a living benefit rider are primarily in the form of GMWBs. The profitability of these products can vary as GIAC's obligation changes with interest rate and equity market volatility. GIAC has a reinsurance agreement with a

third-party reinsurer that reinsures 90% of various GMWB riders that were written through December 2008 and introduced prior to September 2008. That reinsurer is an admitted reinsurer in New York. The financial strength ratings of this reinsurer from S&P and Moody's are AA- and Aa3, respectively. The reinsurance treaty remains in effect for any business written on these riders through December 2008. The business written on new rider forms introduced in September 2008 and after, which were not covered by the treaty, as well as the 10% of the risks on riders introduced prior to September 2008 that are not reinsured, are subject to a hedging program, as described below under "*Hedging Programs—GIAC GMWB Rider Hedging Program.*" While the hedging program is designed to mitigate equity risk and interest rate tail risk associated with these riders, it is not currently hedging all risks associated with such riders, such as volatility risks associated with policyholder withdrawals in equity markets subject to sustained volatility. There can be no assurance that this hedging program will reduce all the risks associated with those riders. See "*Risk Factors—Risk Factors Related to Guardian—Guarantees embedded in GMWB riders sold with variable annuity contracts expose GIAC to certain risks.*"

The reserves on contracts with living benefit riders were \$6,642 million as of December 31, 2018, \$7,793 million as of December 31, 2017 and \$7,304 million as of December 31, 2016.

Risks Related to Credit Markets

Credit risk is the risk that issuers of investments owned by Guardian may default or that other parties may not be able to pay amounts due to it. Guardian attempts to manage its investments to limit credit risk by diversifying its portfolio among various security types and industry sectors and limiting the exposure to issuers.

Guardian is exposed to credit-related losses in the event of non-performance by counterparties to various financial instruments. In order to reduce counterparty risk, Guardian and certain of its counterparties require collateral to be posted in the amount owed under each of these transactions, subject to thresholds and minimum transfer amounts that are functions of the rating on the counterparty's long-term, unsecured, unsubordinated debt.

Guardian regularly monitors counterparty credit ratings and exposures, investment positions and valuations, and the value of collateral posted to ensure counterparties are credit-worthy and the concentration of its exposure. Guardian monitors this exposure as part of its management of its overall credit exposures.

Hedging Programs

Macro Dynamic Hedging Program

Guardian currently maintains what it refers to as a macro dynamic hedging program which uses exchange traded futures contracts to hedge on a macro level against volatility impact on capital. The macro dynamic hedging program seeks to protect statutory capital from volatility resulting from mark-to-market assets.

The hedging program is currently using exclusively exchange traded derivatives such as equity index futures and currency futures contracts, in part to avoid individual counterparty exposure under non-cleared swaps.

While Guardian's hedging program attempts to protect capital from volatility of mark-to-market assets, various factors may adversely affect the ability of the program to achieve its goal. These factors may include operational risks associated with the execution of the program, liquidity risks in the futures market, the availability of suitable instruments to replicate the option valuation model related sensitivity calculations, model risks, basis risks between the futures and underlying indices, continuity of trading in the futures markets in periods of distress, and changes in the relevant regulatory environment at the federal and state levels and the cost of hedging. The macro dynamic hedging program effectively links Guardian's ability or tolerance to take certain capital markets risks to a desired level of maximum pre-tax loss. Therefore, following this hedging strategy, an adverse impact to Guardian's capital could result from a lack of operating earnings, credit impairments or other factors and will not be covered by this macro hedging program.

There can be no assurances that the macro dynamic hedging program will protect Guardian's capital from volatility of mark-to-market assets.

See “Financial and Accounting Matters—Critical Accounting Policies.”

GIAC GMWB Rider Hedging Program

Within GIAC, short and long positions in exchange traded futures based on Treasuries and various stock indexes are used to hedge the firm’s statutory and economic obligations associated with writing GMWB riders in connection with GIAC’s VA business. This hedging program is used only to the extent those riders are not reinsured to a third party reinsurer. GIAC has a reinsurance agreement with a third-party reinsurer that reinsures 90% of the risk under various GMWB riders that were written through December 2008 and introduced prior to September 2008. The reinsurance treaty remains in effect for any business written on these riders through December 2008. The business written on new rider forms introduced in September 2008 and after, which were not covered by the treaty, as well as the 10% of the risks on riders introduced prior to September 2008 that are not reinsured, are subject to a hedging program.

As part of this hedging program, Guardian periodically rebalances hedge positions. The hedge rebalancing is linked to the sensitivities of the liabilities being hedged to equity and interest rate risk. The sensitivities are calculated daily, based on policy by policy daily updates of in-force liabilities and current equity markets and interest rate levels. Futures positions are designed to partially offset a combination of statutory and economic liability sensitivities in accordance with the parameters of the hedging program. Equity index futures positions used in this hedging program attempt to offset the equity risk sensitivity of the liabilities. Treasury index futures are used to hedge the interest rate risk of the liabilities. Volatility risk is not hedged at the current time, but will be considered when appropriate. All risk from the riders is accordingly not hedged by this program, including risks associated with sustained volatility in equity markets and policyholder withdrawals. There can be no assurances that this hedging program will reduce the risks associated with these riders. See “Risk Factors—Risk Factors Related to Guardian—Guarantees embedded in GMWB riders sold with variable annuity contracts expose GIAC to certain risks.”

Seed Capital Hedging

In the past, as appropriate Guardian has hedged directly equity market risks associated with seed capital investments it has made in mutual funds advised by its former subsidiary, RS Investment Management Co. LLC. The hedges were executed with equity index futures.

Foreign Currency Risk Hedging Program

Within the general account of Guardian, currency derivatives are used to manage the currency risk inherent in the firm’s foreign denominated private placement transactions. Currency hedging is accomplished using currency swaps. Hedging decisions are based upon Guardian’s view of macroeconomic fundamentals across the markets in which it invests and desired tolerance for currency risk.

Credit Default Risk Hedging and Replications

Guardian employs credit default swaps to hedge credit risks in its investment portfolios as needed. Credit risk in corporate bonds is hedged using credit default swaps, when viewed as warranted by Guardian, which considers liquidity, market volatility, fundamentals, issuer exposure and other relevant factors in making this determination. In 2016, Guardian also used uncleared credit default swaps to enter into replication transactions to achieve exposure to desired market segments. Guardian uses both cleared and uncleared credit default swaps. Credit default swaps positions may involve credit exposure to derivative counterparties in bilateral uncleared transactions or to the clearing house of the central clearing counterparty involved. Guardian uses collateral arrangements with all its counterparties to manage this risk.

Interest Rate Hedging Programs

Guardian partially hedges interest rate risk with derivatives in the GIAC GMWB rider hedging program (see above). Interest rate risk exposures are also managed by matching the duration of portfolios, including fixed income assets such as treasuries and corporate bonds, to the duration of the respective liabilities to minimize interest

rate risk. In the course of asset/liability management Guardian or its affiliates may also use derivatives to manage interest rate risk. In 2016, Guardian started using such an interest rate hedging program in two of its segments. In addition, Guardian hedges the interest rate risk due to timing between the accumulation of assets supporting funding agreement backed notes and the issuance of the liability as described in “—FA-Backed Notes Interest Rate Hedging” below. Guardian also has partially hedged the interest rate risk associated with the anticipated issuance of surplus notes. There is no guarantee that the employed interest rate risk hedging program will offset the interest rate risk exposure intended to be hedged.

Deferred Compensation (Company Plan) Liability Hedging

Guardian offers a non-qualified deferred compensation plan to certain individuals such as eligible employees, retirees and directors. Deferred compensation growth is linked to the performance of equity and fixed income investments with observable returns. Guardian had employed a hedging program to hedge the equity linked company liabilities associated with the deferred compensation plan. The instruments used to hedge these liabilities are equity index futures. There are no guarantees that the company plan liability hedging program will offset the equity linked company liabilities associated with its deferred compensation plan.

Replications

Guardian has used and may use derivatives to enter into replications of permitted securities such as Treasury futures to replicate Treasury Bond Interest rate exposure or CMBX to quickly gain exposure to a diversified portfolio of CMBX bonds.

FA-Backed Notes Interest Rate Hedging

In 2018, Guardian acquired the assets to support the issuance on one Note issued by the Issuer. In 2017, Guardian acquired assets to support the issuance on one Note issued by the Issuer. In 2016, Guardian acquired assets to support the issuance of two Notes issued by the Issuer. Guardian hedged the interest rate risk of those assets and Note liabilities using Treasury futures.

Index Participation Rider hedging

In 2018 Guardian used over the counter equity index options to hedge the equity risk of the associated Index Participation Rider liabilities of certain participating whole life policies.

Other Hedging Programs

Guardian has employed in the past, may be employing or may employ in the future other hedging programs not listed above such as rate lock hedging for private placements and commercial mortgages origination, hedging equity linked features of its products and other similar derivative programs under its Derivative Use Plan.

DIRECTORS AND EXECUTIVE OFFICERS OF GUARDIAN

Set forth below is information regarding the directors and executive officers of Guardian as of March 1, 2019:

Name	Title	Since ⁽²⁾
John J. Brennan	Director ⁽¹⁾	2011
Lloyd E. Campbell.....	Director ⁽¹⁾	2006
Richard E. Cavanagh	Director ⁽¹⁾	1998
Nancy E. Cooper.....	Director ⁽¹⁾	2012
Deborah L. Duncan.....	Lead Director ⁽¹⁾⁽³⁾	2006
William C. Freda	Director ⁽¹⁾	2014
Christopher T. Jenny.....	Director ⁽¹⁾	2017
Deanna M. Mulligan.....	Director	2011
	President and Chief Executive Officer	2008
Gary A. Norcross.....	Director ⁽¹⁾	2017
Vivek Sankaran	Director ⁽¹⁾	2018
Marc M. Costantini.....	Executive Vice President, Commercial and Government Markets	2014
Dean Del Vecchio.....	Executive Vice President, Chief of Operations and Chief Information Officer	2013
Eric R. Dinallo.....	Executive Vice President and General Counsel	2017
Michael N. Ferik.....	Executive Vice President and Chief Financial Officer	2009
Andrew J. McMahon.....	Executive Vice President, Individual Markets, Enterprise Strategy and Customer Development	2017
Diana L. Scott.....	Executive Vice President, Chief Human Resources Officer	2018
Thomas G. Sorell, CFA.....	Executive Vice President and Chief Investment Officer	1994

The address of each of the directors and executive officers listed above is The Guardian Life Insurance Company of America, 7 Hanover Square, New York, New York, 10004. Guardian's main telephone number is (212) 919-8000.

- (1) Independent non-employee director.
(2) First year of affiliation with Guardian.
(3) Ms. Duncan was appointed Lead Director, effective January 1, 2017.

Directors' Biographical Information

Set forth below is a description of the business positions held by the directors during at least the past five years (ages as of March 1, 2019).

John J. Brennan, age 64, is the former Chairman and Chief Executive Officer of The Vanguard Group, from which he retired in December 2009. He is also a former Chairman of FINRA. He is currently Chairman Emeritus of The Vanguard Group and Chairman of the Vanguard Charitable Endowment Program. He is Chairman of the Board of Trustees of the University of Notre Dame, and is a Director of American Express Company and Rockefeller Capital Management. Mr. Brennan is also a former director of LPL Financial.

Lloyd E. Campbell, age 61, has been a consultant with Spencer Stuart since 2008. Mr. Campbell is also Special Advisor to Aurora Management Partners LLC. He is also a former Senior Advisor of Rothschild Inc., former Director of Argyle Securities Corporation, Spartech Corporation and the Alderwoods Group, and a past Trustee of Georgetown University.

Richard E. Cavanagh, age 72, is the former President and Chief Executive Officer of The Conference Board, Inc. Mr. Cavanagh served in that position from 1995 to 2007. Previously, Mr. Cavanagh was Executive Dean of the John F. Kennedy School of Government at Harvard University, where he is currently a faculty member. Mr. Cavanagh is a Director and Independent Chairman of the BlackRock Mutual Funds family, a Director and Senior Advisor of the Fremont Group, L.L.C. He is the past National Chairman of Volunteers for America and is a former Trustee and Chairman of Educational Testing Service.

Nancy E. Cooper, age 65, is the former Chief Financial Officer and Executive Vice President of CA Technologies, Inc. Ms. Cooper served in that position from 2006–2011. She is also a former Chief Financial Officer and Senior Vice President of IMS Health, Inc., former Partner of General Atlantic and former Vice President of IBM. She is a Director of Aptiv PLC, Brunswick Corporation and The Mosaic Company, and a former Director of Teradata Corporation.

Deborah L. Duncan, age 63, is a Senior Advisor, member of the Board of Advisors, and former Executive Vice President and Chief Financial Officer of Fremont Group, L.L.C. Ms. Duncan is a Director of Fremont Investors, Inc., Director and Secretary, PIX System, LLC and Director and Chairman of the Investment Committee, S.D. Bechtel, Foundation. She is also Chair of the Board of Trustees of Smith College.

William C. Freda, age 66, is the retired Senior Partner and Vice Chairman of Deloitte, former Chairman of Global Insurance Committee at Deloitte Touche Tohmatsu Limited (DTTL), and former Managing Partner of U.S. Financial Services Industry Practice of Deloitte LLP. Mr. Freda is Chairman of Hamilton Insurance Group, a Director of State Street Corporation, and a Trustee at Bentley University. He is a former Director of DTTL, former Chairman of American Institute of Certified Public Accountants' (AICPA) Insurance Companies Committee, former Chairman of AICPA's Mutual Life Insurance Task Force, former U.S. Representative for the International Accounting Standards Committee's Insurance Steering Committee, former Chairman of Board of Trustees at Catholic Community Services, and former Chairman of Board of Trustees at United Way of Essex and West Hudson.

Christopher T. Jenny, age 63, is a former President and Senior Partner of The Parthenon Group and a former Partner of Bain & Company. Mr. Jenny is Chairman of Jennus Innovation and is a Director of CBRE Group, Inc., Mobile Virtual Player and PLT4M. Mr. Jenny also serves on the boards of the New England Baptist Hospital and the Sudbury Valley Trustees, a regional land conservation trust.

Deanna M. Mulligan, age 55, has been the President and Chief Executive Officer and a Director of Guardian since 2011. Previously, she served as the President and Chief Operating Officer of Guardian in 2010. Ms. Mulligan joined Guardian in 2008 as the Executive Vice President, Individual Life and Disability. She serves as a Director of The Vanguard Group, Inc., Trustee of the Vanguard Funds, Director of the Partnership for New York City, Trustee of the Economic Club of New York, Member of the Department of Financial Services State Insurance Advisory Board, Director of the Committee Encouraging Corporate Philanthropy, Trustee of the Bruce Museum and is a Director and the former Chair of the American Council of Life Insurers. Ms. Mulligan is also a former Director of Arch Capital Group Ltd. and a former Trustee of RS Investment Trust and RS Variable Products Trust. Ms. Mulligan is also a member of the Stanford Graduate School of Business Advisory Council, and a former member of the President's Advisory Council on Financial Capability for Young Americans. Prior to joining Guardian in 2008, Ms. Mulligan founded DMM Management Solutions LLC where she served as President from 2007 to 2008. Previously, she held several other management positions at McKinsey & Company, AXA Financial, Inc. and New York Life Insurance Company.

Gary A. Norcross, age 53, has been the President and Chief Executive Officer of FIS since 2015 and Chairman since 2018. He is also a Member of the Dean's Executive Advisory Board of the Sam M. Walton School of Business for the University of Arkansas. Mr. Norcross is a Director of Capco, Director of the YMCA of Florida's First Coast and a Director for the Knowledge is Power Program's (KIPP) Jacksonville Schools. Mr. Norcross is also a Director of Zenmonics, Inc.

Vivek Sankaran, age 56, has been the Chief Executive Officer of Frito-Lay North America ("Frito-Lay") since January 2019. Previously, he served as President and Chief Operating Officer of Frito-Lay from 2016-2018. Mr. Sankaran served as Chief Operating Officer and as Chief Commercial Officer of PepsiCo North America from

2009 to 2016. Mr. Sankaran is a Director of the Safe Water Network, a Director of the Dallas Regional Chamber and a Director of the Grocery Manufacturers Association. He is a former Partner of McKinsey & Company.

Executive Officers' Biographical Information

Set forth below is a description of the business positions held during the past five years by the executive officers (other than Ms. Mulligan whose biographical data is described above) (ages as of March 1, 2019) listed above.

Marc M. Costantini, age 49, has been the Executive Vice President, Commercial and Government Markets, of Guardian since 2017. Previously, he had been the Executive Vice President and Chief Financial Officer of Guardian from 2014 to 2017. Prior to joining Guardian, he held several senior management positions with Manulife Financial Corporation (“Manulife”) and John Hancock Life Insurance Company (“John Hancock”), including Executive Vice President, Corporate Development and Strategy for Manulife from 2012 to 2014, Executive Vice President, Strategic Initiatives for John Hancock from 2011 to 2012, President, Annuities for John Hancock from 2007 to 2011 and Chief Financial Officer for John Hancock from 2005 to 2007.

Eric R. Dinallo, age 55, has been the Executive Vice President and General Counsel of Guardian since December 2017. Prior to joining Guardian, he was a Partner and Co-Head of the Insurance Group and Member of the White Collar and Regulatory Defense Group of the law firm of Debevoise & Plimpton LLP, from 2010 to 2017, where he represented financial services firms, including Guardian, on issues related to regulation, compliance, litigation and transactions. His prior experience also includes senior-level leadership positions as Superintendent of Insurance for New York State, Global Head of Regulatory Affairs at Morgan Stanley and General Counsel at Willis Holdings. Mr. Dinallo also serves as an Adjunct Professor of Business and Society at New York University Stern School of Business since 2009.

Dean Del Vecchio, age 52, has been the Executive Vice President, Chief of Operations and Chief Information Officer since March 2019, prior to which he was Executive Vice President, Chief Information Officer & Head of Enterprise Shared Services from 2016. Previously, he had been the Senior Vice President, Chief Information Officer of Guardian. Prior to joining Guardian, he was the Senior Vice President, Chief Information Officer and Head of IT Shared Services at News Corp. Dow Jones from 2005 to 2013.

Michael N. Ferik, age 46, has been the Executive Vice President and Chief Financial Officer of Guardian since 2017. Previously, he had been the Executive Vice President, Individual Markets, of Guardian from 2016 to 2017, and the Senior Vice President, Life Insurance and Wealth Management, of Guardian from 2009 to 2016. Prior to joining Guardian, he held a senior management position with AXA Equitable, Life Products and Annuities and an engagement management position with McKinsey & Company. Mr. Ferik also held a Vice President & Actuary position with Manulife (Singapore).

Andrew J. McMahon, age 51, has been the Executive Vice President, Individual Markets, Enterprise Strategy and Customer Development, of Guardian since March 2019. Previously, he had been the Executive Vice President, Strategy & Customer Development of Guardian from December 2017 through February 2019. Prior to joining Guardian, he was the Chief Executive Officer and Founder of Vitae Advisors, LLC from 2014 to 2017, and he served in multiple roles at AXA Financial from 2005 to 2014, including Head of Strategic Initiatives Group, Chairman/COO of AXA Advisors, and, ultimately, as the President of AXA Financial.

Diana L. Scott, age 59, has been the Executive Vice President and Chief Human Resources Officer of Guardian since September 2018. Prior to joining Guardian, Ms. Scott served as Chief Human Resources Officer for the global logistics and REIT company Prologis, Inc. from 2013 to 2018. Previously, Ms. Scott spent 15 years at John Hancock Financial, the U.S. division of Toronto-based Manulife Financial Corporation, where she held a variety of management positions, including Senior Vice President of Human Resources, General Manager of the John Hancock Freedom 529 college savings plan and General Manager of the Group Insurance Division.

Thomas G. Sorell, CFA, age 63, has been the Executive Vice President and Chief Investment Officer of Guardian and certain other Guardian subsidiaries since 2003. Previously, Mr. Sorell was a Senior Managing

Director, Head of Guardian's Fixed Income Department, and Co-Portfolio Manager of a number of Guardian-sponsored fixed income funds.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Except as described below, there are no potential conflicts of interest between the duties to Guardian of any of the members of the Board of Directors and their respective private interests or other duties.

In the ordinary course of its insurance operations, Guardian and its insurance subsidiaries have from time to time provided insurance coverage to a number of corporations of which the directors of Guardian are or were officers or directors. However, such coverage is primarily the result of sales efforts and is not tied to the membership on Guardian's Board of Directors of any one or more individuals or to a relative or spouse of such individual.

Some of the directors carry one or more life insurance policies issued by Guardian and its insurance subsidiaries. These policies give owners voting rights as prescribed by the New York Insurance Law, but in the aggregate such directors and officers who are policyholders hold an insignificant percentage of the aggregate voting rights in Guardian.

GLOSSARY

The following Glossary includes general definitions of certain insurance terms as well as other terms relating specifically to Guardian.

Admitted assets: Assets which are included in an insurance company's financial statements to measure surplus as determined in accordance with state insurance laws. Other assets, consisting principally of amounts due from insurance agents, prepaid expenses and furniture and equipment are treated as "nonadmitted assets" for statutory accounting purposes.

Annual Statement: The reports filed annually with state insurance regulatory authorities that contain financial and other information on a calendar year basis and are prepared in accordance with statutory accounting practices. The form of the annual statement is prescribed by the NAIC.

Annuity: A contract that pays or permits the election of a periodic income benefit for the life of a person, the lives of two or more persons or a specific period of time.

Apportioned Dividend Liability: The estimated amount of all dividends declared by Guardian's Board of Directors prior to the end of the statement year which are not yet paid or due at the end of the year.

Asset Valuation Reserve ("AVR"): The reserve required by insurance regulators to stabilize statutory surplus from non interest-related fluctuations in the market value of bonds, stocks, mortgage loans, real estate and other invested assets.

Carrying Value: The value of an asset as carried on an insurance company's balance sheet, as determined in accordance with SAP.

Cash Value: The amount of cash available to a policyholder on the surrender of a life insurance policy or annuity contract.

Cede: When an insurer reinsures its liability with another insurer (a "cession"), it "cedes" business and is referred to as the "ceding company."

Disability Income Insurance: Insurance which provides income payments to the insured when employment is interrupted or terminated because of illness, sickness or accident. The level, timing and duration of payments vary by policy type.

Dividend Scales: The schedule of amounts payable as dividends on participating policies based on experience factors relating to, among other things, investment results, mortality, lapse rates, expenses, premium taxes and policy loan interest and utilization rates.

Equity Real Estate: An investment asset category which combines wholly owned real estate and interests in real estate joint ventures.

GAAP: Accounting Principles Generally Accepted in the United States of America.

General Account: The aggregate of an insurer's assets other than those allocated to Separate Accounts.

General Account Assets: The assets held in the General Account associated with the operations of an insurance company which include bonds, mortgages, real estate, equity interests, policy loans, cash and short-term investments and other invested assets.

Insurance Subsidiaries: Collectively, the significant operating insurance subsidiaries of Guardian, mainly GIAC.

Interest Maintenance Reserve (“IMR”): The reserve required by insurance regulators to capture interest rate-related realized capital gains and losses (net of taxes) on fixed income investments (primarily bonds and mortgage loans), which are amortized into net investment income over the estimated remaining periods to maturity of the investments sold.

Investment Reserves: Collectively, the AVR and other investment reserves.

Lapse: Termination of a policy because of surrender, failure to pay a premium or lack of sufficient cash value to maintain in-force status.

Lapse Rate: The ratio of the amount of lapses during a period to the amount of insurance in force or amount of premium at the beginning of the period.

Morbidity: Rates and duration of disability varying by such things as age, gender and duration since disability, used in pricing and valuing disability income insurance products.

Mortality: Rates of death, varying by such parameters as age, gender and health, used in pricing and valuing life and annuity products.

National Association of Insurance Commissioners (“NAIC”): The national association of state insurance regulators that sets guidelines for statutory policies, procedures and reporting for insurance enterprises.

Participating Policyholder: A policyholder who participates in the divisible surplus of an insurance company through policyholder dividends to the extent declared by an insurer’s Board of Directors.

Persistency: Measurement of life insurance or other insurance policies remaining in force from year to year.

Policy: A life, accident, health, annuity, property or casualty contract, issued by an insurance company to an individual or group, that provides financial protection to an insured, owner or beneficiary.

Policyholder Dividends: Premiums for participating policies are set with margins designed and intended to allow for certain refund provisions, usually called policyholder dividends, paid over the term of the policy, if and as declared by the insurer’s board of directors, and adjusted, over time, to reflect the actual experience of the class of policies involved.

Reinsurance: The acceptance by one or more insurers, called reinsurers, of a portion of risk underwritten by another insurer who has directly written the coverage in return for a portion of the premium relating thereto. The legal rights of the insured generally are not affected by the reinsurance transaction and the insurance enterprise issuing the insurance contract remains liable to the insured for payment of policy benefits.

Risk Based Capital (“RBC”): A regulatory measure of the minimum amount of capital needed for an insurance company to support its overall business in light of both its size and risk profile.

Separate Accounts: Investment accounts maintained by an insurer to which funds have been allocated for certain policies under provisions of relevant state insurance law. The investments in each Separate Account are maintained separately from those in other Separate Accounts and the General Account. The investment results of the Separate Account assets normally are passed through to the relevant policyholders.

Statutory Accounting Practices (“SAP”): Those accounting practices prescribed or permitted by an insurer’s domiciliary state insurance regulator for purposes of financial reporting to insurance regulators.

Statutory Reserves: Amounts established pursuant to state insurance laws that an insurer must have available to provide for future obligations with respect to all policies. Reserves are liabilities on the balance sheet of financial statements prepared in conformity with statutory accounting practices.

Statutory Surplus: As determined under statutory basis accounting principles, the amount remaining after all liabilities, including loss reserves, are subtracted from all admitted assets. Admitted assets are assets of an insurer permitted by a state to be taken into account in determining the insurer's financial condition for statutory purposes.

Surrenders and Withdrawals: Surrenders of life insurance policies and annuity contracts for their entire net cash surrender values and withdrawals of a portion of such values.

Term Life: Life insurance which provides insurance protection for a fixed period (which generally may be renewed at an increased premium) and has no cash value.

Total Adjusted Capital: Guardian adopted the NAIC's definition of total adjusted capital for purposes of comparison with RBC; defined as Surplus plus AVR plus half the Apportioned Dividend Liability.

Underwriting: The process of examining, accepting or rejecting insurance risks, and classifying those accepted, in order to charge an appropriate premium for each risk accepted.

Universal Life Insurance: Life insurance under which (1) premiums are generally flexible, (2) the level of death benefits may be adjusted and (3) explicit expense, interest, and mortality rates are used to accumulate cash value.

Variable Universal Life Insurance: Same as Universal Life Insurance, except the interest element is replaced by actual performance of one or more Separate Accounts; the entire investment risk is borne by the policyholder.

Whole Life Insurance: These policies provide guaranteed death benefits and guaranteed cash values in return for periodic fixed premium payments or, in the case of single premium whole life policies, a lump sum payment when the policy is issued. Participating whole life insurance provides dividends based on actual experience more favorable than expense, interest, mortality, and persisting assumptions underlying guarantees.

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FINANCIAL STATEMENTS**

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Report of Independent Auditors

To the Board of Directors of
The Guardian Life Insurance Company of America:

We have audited the accompanying statutory financial statements of The Guardian Life Insurance Company of America, which comprise the statutory basis balance sheets as of December 31, 2018, 2017 and 2016 and the related statutory basis statements of operations, changes in policyholders' surplus, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. 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 financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America are material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

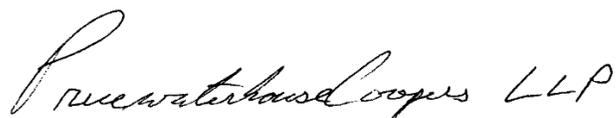
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2018, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2018, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services described in Note 2.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplemental Schedule 1 – Selected Financial Data, Investment Risk Interrogatories, and Summary Investment Schedule (collectively, the “supplemental schedules”) of the Company as of December 31, 2018, 2017 and 2016, and for the years then ended are presented to comply with the National Association of Insurance Commissioners’ Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.



February 27, 2019

The Guardian Life Insurance Company of America

Statutory Basis Balance Sheets

(In Millions)

	As of December 31,	
	2018	2017
Admitted Assets		
Bonds	\$ 39,361	\$ 38,125
Common and preferred stocks	1,811	1,531
Mortgage loans	4,520	4,001
Real estate (net of encumbrances: 2018 - \$212; 2017 - \$219)	331	345
Policy loans	3,635	3,520
Other invested assets	2,675	2,299
Receivable for securities	5	80
Cash, cash equivalents and short-term investments	732	554
Total invested assets	<u>53,070</u>	<u>50,455</u>
Due and accrued investment income	415	430
Premiums deferred and uncollected	1,115	1,091
Current federal and foreign income tax recoverable and interest thereon	201	127
Net deferred tax asset	650	587
Reinsurance recoverable from affiliate	2,803	2,641
Other assets	235	238
Total admitted assets	<u>\$ 58,489</u>	<u>\$ 55,569</u>
Liabilities		
Reserves for policy benefits	\$ 44,258	\$ 41,778
Policyholder dividends payable and other contract liabilities	3,753	3,550
Interest maintenance reserve	301	531
Asset valuation reserve	879	829
Other liabilities	2,126	2,197
Total liabilities	<u>51,317</u>	<u>48,885</u>
Policyholders' surplus	5,974	5,487
Surplus notes	1,198	1,197
Total liabilities and policyholders' surplus	<u>\$ 58,489</u>	<u>\$ 55,569</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Statutory Basis Statements of Operations

(In Millions)

	For the Years Ended December 31,	
	2018	2017
Revenues		
Premiums, annuity considerations and fund deposits	\$ 8,381	\$ 8,112
Net investment income	2,132	2,106
Other income	344	441
Total revenues	<u>10,857</u>	<u>10,659</u>
Benefits and Expenses		
Benefit payments to policyholders and beneficiaries	4,535	4,449
Net increase to policy benefit reserves	2,481	2,409
Commissions and operating expenses	2,445	2,383
Total benefits and expenses	<u>9,461</u>	<u>9,241</u>
Income from operations before policyholder dividends and taxes	1,396	1,418
Policyholder dividends	<u>(966)</u>	<u>(903)</u>
Income from operations before taxes and realized capital losses	430	515
Income tax benefit/(expense)	<u>52</u>	<u>(65)</u>
Income from operations before net realized capital losses	482	450
Net realized capital losses	<u>(172)</u>	<u>(27)</u>
Net income	<u>\$ 310</u>	<u>\$ 423</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Statutory Basis Statements of Change in Policyholders' Surplus

(In Millions)

	For the Years Ended December 31,	
	<u>2018</u>	<u>2017</u>
Beginning of year balance	\$ 6,684	\$ 6,172
Adjustments to surplus:		
Net income	310	423
Change in net unrealized capital gains, net of tax	144	26
Change in asset valuation reserve	(50)	(19)
Change in surplus notes	1	352
Change in net deferred taxes	49	(391)
Change in non-admitted assets	28	233
Change in pension funded status	8	(110)
Other changes, net	<u>(2)</u>	<u>(2)</u>
Net adjustments to unassigned surplus	<u>488</u>	<u>512</u>
End of year balance	<u>\$ 7,172</u>	<u>\$ 6,684</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Statutory Basis Statements of Cash Flows

(In Millions)

	For the Years Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Premiums and other income received	\$ 8,373	\$ 8,097
Investment income	2,186	2,110
Other income	149	130
Benefits and loss related payments	(4,831)	(4,582)
Commissions, expenses and taxes paid	(2,469)	(2,431)
Dividends paid	(870)	(847)
Other, net	23	(12)
Net cash provided by operating activities	<u>2,561</u>	<u>2,465</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Bonds	12,450	14,248
Common and preferred stocks	204	363
Mortgage loans	471	495
Real estate	66	107
Other investments	380	398
Proceeds from investments sold or matured	<u>13,571</u>	<u>15,611</u>
Cost of investments acquired:		
Bonds	13,961	16,841
Common and preferred stocks	443	316
Mortgage loans	993	1,033
Real estate	45	85
Other investments	717	751
Cost of investments acquired	<u>16,159</u>	<u>19,026</u>
Net increase in policy loans, net of repayments	115	115
Net cash used in investing activities	<u>(2,703)</u>	<u>(3,530)</u>
Cash from financing and miscellaneous activities:		
Cash provided:		
Surplus note	1	352
Net deposits on deposit-type contracts and other insurance liabilities	319	445
Net cash provided by financing and miscellaneous activities	<u>320</u>	<u>797</u>
Net (decrease) increase in cash, cash equivalents and short-term investments	178	(268)
Cash, cash equivalents and short-term investments, beginning of year	<u>554</u>	<u>822</u>
Cash, cash equivalents and short-term investments, end of year	<u>\$ 732</u>	<u>\$ 554</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 1 – ORGANIZATION

The Guardian Life Insurance Company of America (“Guardian” or the “Company”) provides financial services to customers throughout the United States. The Company provides a full range of insurance, investment, securities brokerage and other financial products and services including individual life and disability insurance, group life and health insurance, annuities, pension and retirement related investments and administration and asset management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying statutory basis financial statements have been prepared on the basis of accounting practices prescribed or permitted by the New York State Department of Financial Services (the “Department”), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“GAAP”). Insurance companies domiciled in New York are required to prepare statutory basis financial statements in accordance with the National Association of Insurance Commissioners’ (“NAIC”) Accounting Practices and Procedures manual (“NAIC SAP”), subject to certain deviations prescribed or permitted by the Department.

The Department recognizes only statutory accounting practices prescribed or permitted by the state of New York for determining and reporting the financial condition and results of operations of an insurance company (“New York SAP”). The NAIC promulgates the NAIC SAP, which include accounting guidelines referred to as Statements of Statutory Accounting Principles (“SSAPs”). The Department adopted NAIC SAP with certain modifications, through the passage of Regulation 172, effective January 1, 2001, as amended.

A reconciliation of the Company’s Net Income and Surplus at December 31, 2018 and 2017 between NAIC SAP and practices prescribed by the State of New York is shown below:

	<u>2018</u>	<u>2017</u>
Statutory Net Income, New York basis	\$ 310	\$ 423
State Prescribed Practices:		
Deferred premiums asset impact (1)	4	7
Admission of unearned reinsurance premium asset (2)	<u>(4)</u>	<u>(5)</u>
Statutory Net Income, NAIC SAP basis	<u>\$ 310</u>	<u>\$ 425</u>

	<u>2018</u>	<u>2017</u>
Statutory Surplus, New York basis	\$ 7,171	\$ 6,684
State Prescribed Practices:		
Deferred premiums asset impact (1)	151	143
Admission of unearned reinsurance premium asset (2)	<u>(67)</u>	<u>(62)</u>
Statutory Surplus, NAIC SAP basis	<u>\$ 7,255</u>	<u>\$ 6,765</u>

- 1) Department Circular Letter No. 11
- 2) Department Regulation 172

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial statements prepared on a New York SAP basis vary from financial statements prepared in accordance with GAAP primarily because on a statutory basis: 1) costs related to acquiring business, principally commissions and certain policy issue expenses, are charged to income in the year incurred; 2) life insurance and annuity reserves are based on statutory mortality and interest requirements, without consideration of withdrawals and company experience; 3) life insurance enterprises are required to establish a formula-based asset valuation reserve (“AVR”) by a direct charge to surplus to offset potential investment losses; 4) realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the interest maintenance reserve (“IMR”) and amortized into investment income over the remaining life of the investment sold; 5) bonds are carried principally at amortized cost; 6) certain reinsurance transactions are accounted for as reinsurance for statutory purposes and as financing transactions under GAAP, and assets and liabilities are reported net of reinsurance for statutory purposes and gross of reinsurance for GAAP; 7) certain “non-admitted assets” (furniture and office equipment, leasehold improvements, capitalized internally developed non-operating system software, and prepaid pension costs) must be excluded under statutory reporting through a charge to surplus; 8) investments in common stock of the Company’s wholly-owned and majority owned subsidiaries are accounted for using the equity method, where earnings of such subsidiaries are recognized in surplus only when dividends are distributed is income recognized; 9) gross deferred tax assets and changes in deferred tax assets (“DTAs”) and liabilities (“DTLs”), except those relating to changes in unrealized gains and losses, are recognized as a separate component of surplus. Deferred tax assets not meeting certain criteria are non-admitted; 10) investments in Other invested assets, where the Company has a controlling financial interest, are accounted for using the equity method for statutory purposes and consolidated under GAAP; and 11) if in the aggregate, the Company has a net negative cash balance, it is reported as a negative asset for statutory purposes and recorded as a liability under GAAP. The effect on the financial statements of the Company from the differences between New York SAP and GAAP are material and disclosed in Note 19.

Use of Estimates:

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. As a provider of life insurance products, the Company’s operating results in any given period depend on estimates of policy reserves required to provide for future policyholder benefits. The development of policy reserves for insurance and investment contracts requires management to make estimates and assumptions regarding mortality, lapse, expense and investment experience. Such estimates are primarily based on historical experience and, in many cases, state insurance laws that require specific mortality, morbidity, and investment assumptions to be used by the Company and may preclude the use of lapse and expense assumptions. Actual future results could differ from these estimates. Management monitors actual experience, and where circumstances warrant, revises its assumptions and the related reserve estimates. The Company regularly invests in mortgage loans, mortgage-backed securities and other securities subject to prepayment and/or call risk. Significant changes in prevailing interest rates and/or geographic conditions may adversely affect the timing and amount of cash flows on such investments, as well as their related values. In addition, the amortization of market premium and accretion of market discount for mortgage-backed securities is based on historical experience and estimates of future payment experience underlying mortgage loans. Actual prepayment timing could differ from original estimates resulting in adjustments to asset values and amortization or accretion recorded in future periods.

Admitted Assets:

Assets are stated at "admitted asset" values, which are values required by or permitted to be reported to the Department in accordance with its rules and regulations. Certain assets designated as "non-admitted assets" (approximately \$128 million and \$156 million at December 31, 2018 and December 31, 2017, respectively), consisting principally of deferred tax assets, leasehold improvements, electronic data processing equipment and computer software, and prepaid pension costs are charged directly to unassigned surplus.

Investments:

See Note 3 and Note 4 regarding the accounting policy, reported statement value and estimated fair value of the Company’s investment in bonds, common and preferred stocks, mortgage loans, real estate and derivatives.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Short-Term Investments:

Cash includes amounts on deposit with banks. Cash equivalents are stated at amortized cost and consist of investments having maturities of three months or less at time of purchase. Money Market Funds are included in cash equivalents and are stated at the Net Asset Value which is equivalent to the fair value. Certain short-term investments are stated at amortized cost and consist primarily of investments having maturities greater than three months from date of purchase, but less than one year to maturity. Fair values for such investments approximate carrying value, because of the relatively short period of time between their origination and expected maturity and collectability.

Policy Loans:

Policy loans are stated at unpaid principal balance. The carrying amount approximates fair value since loans on policies have no defined maturity date and reduce the amount payable at death or at surrender of the contract.

Other Invested Assets:

Other invested assets consist primarily of joint ventures, limited liability companies (LLCs), and other forms of partnerships. These investments are valued at the Company's share of equity in the partnerships' LLC or joint ventures' net assets. All distributions are recorded as income or return of capital based on information received from the partnerships. The change in equity is recorded as unrealized gains (losses) on the Company's books and is charged directly to surplus. Other invested assets also include investments in surplus notes which are carried at amortized cost.

Other Assets:

Other assets consist primarily of receivables from subsidiaries (see Note 11), receivables related to reinsurance ceded (see Note 9), amounts receivable relating to Administrative Services Only ("ASO") uninsured plans, premium tax offsets, and electronic data processing equipment.

Investment Reserves:

In compliance with statutory requirements, the Company maintains the AVR and the IMR. The AVR is intended to stabilize policyholders' surplus against market fluctuations in the value of equities and credit related declines in the value of bonds, mortgage loans and equity investments. Changes in the AVR are recorded directly to surplus. The IMR defers net after-tax realized capital gains (losses) which result from changes in the overall level of interest rates for fixed income investments and amortizes these net capital gains (losses) into income over the remaining stated life of the investments sold. The Company uses the group method of calculating the IMR.

Insurance Revenue and Expense Recognition:

Life premiums are recognized as income over the premium-paying period of the related policies. Annuity considerations are recognized as revenue when received. Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts or policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Benefit payments to policyholders and beneficiaries include death benefits, disability benefits, matured endowments and surrender benefits and are charged to expense when incurred.

Reserves for Policy Benefits:

See Note 5 regarding the methods and assumptions used to establish the Company's reserves for future insurance policy benefits.

Other Liabilities:

Other liabilities consist primarily of general expenses due or accrued, liabilities for employees and agents, commissions payable, unearned investment income, amounts withheld or retained by the company as agent or trustee, miscellaneous reinsurance liabilities, assessments, and tax reserves liabilities.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes:

The provision for federal income taxes is based on income from operations currently taxable. Realized gains and losses are reported net of the applicable federal income taxes. Deferred federal income tax assets are admitted to the extent they can be realized within three years subject to a 15% limitation of capital and surplus with increases or decreases reflected as adjustments to surplus (See Note 8). The Company is required to establish a tax loss contingency if it is more likely than not that a tax position will not be sustained. The amount of the contingency reserve is management's best estimate of the amount of the original tax benefit that could be reversed upon audit, unless the best estimate is greater than 50% of the original tax benefit, in which case the reserve is equal to the entire tax benefit.

Dividends to Policyholders:

The liability for dividends to policyholders principally consists of dividends expected-to-be paid during the subsequent year and are determined by means of formulas that reflect the relative contribution of each group of policies to the results of operations. Policyholder dividends are approved annually by the Board of Directors, and a portion of the policyholder dividends approved annually are guaranteed by the Board of Directors.

Other Contract Liabilities

Other contract liabilities include liabilities for deposit type contracts such as funding agreements (see Note 5), claims in the course of settlement, and premiums received in advance.

Benefit Plans:

The Company has non-contributory defined benefit pension plans covering substantially all eligible of the Company's employees. The benefits are based primarily on years of service and compensation. Assets of the pension plans are invested in a diversified portfolio that primarily consists of corporate bonds and common stocks. All assets are managed by the Company or its affiliates.

Reinsurance:

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk (see Note 9 for reinsurance ceded and Note 10 for reinsurance assumed). The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Net Investment Income and Capital Gains:

Net investment income includes interest and dividends received or accrued on investments. It also includes amortization of any purchase premium or discount using the interest method, adjusted retrospectively or prospectively for any change in estimated yield to maturity. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made. Net investment income is reduced by investment management expenses, interest expense on the Company's outstanding surplus note and real estate depreciation.

Realized investment gains and losses are reported in income based upon specific identification of securities sold. Realized losses include valuation adjustments for other-than-temporary declines in investments. Unrealized investment gains and losses on financial instruments carried at fair value represent changes in the reported fair value and are recorded directly to surplus.

Assessments:

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. As of December 31, 2018 and December 31, 2017, the liability balance included in other liabilities was \$5 million and \$9 million, respectively for assessments. Some states permit member insurers to recover assessments through full or partial premium tax offsets. The related premium tax offsets included in other assets were \$17 million and \$21 million as of December 31, 2018 and December 31, 2017, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On March 1, 2017, the Commonwealth Court of Pennsylvania entered into an order of liquidation for Penn Treaty Network America Insurance Company, and its subsidiary American Network Insurance Company (“Penn Treaty”), providers of long-term care insurance. As a result of the liquidation, the Company used the most current cost estimate provided by the National Organization of Life and Health Guaranty Associations (NOLHGA) to determine the estimated fund assessments and premium tax offsets. As of December 31, 2018, the Company recognized a discounted assessment liability of \$5 million (undiscounted of \$6 million) offset by a discounted premium tax offset of \$17 million (undiscounted of \$19 million) using a discount rate of 3.5%. The assessment is included in other liabilities of \$5 million and in other assets of \$17 million as stated above. As of December 31, 2017, the Company recognized a discounted assessment liability of \$8 million (undiscounted of \$8 million) offset by a discounted premium tax offset of \$16 million (undiscounted of \$19 million) using a discount rate of 3.5%. The assessment is included in other liabilities of \$9 million and in other assets of \$21 million stated above. The Company expects a majority of the assessments to be paid over the next year and a majority of the premium tax offset to be realized over the next 6 years.

The below table provide additional information on the Penn Treaty fund assessment liability and premium tax offset recoverables:

<u>Name of the Insolvency</u>	<u>Liability</u>			<u>Recoverables</u>		
	<u>Number of Jurisdictions</u>	<u>Range of Years</u>	<u>Weighted average number of years</u>	<u>Number of Jurisdictions</u>	<u>Range of Years</u>	<u>Weighted average number of years</u>
Penn Treaty	50	1 - 3 years	2 years	40	1 - 20 years	7 years

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS

Investments are valued in accordance with methods prescribed by the Securities Valuation Office of the NAIC (“SVO”). The Company obtains the fair value of financial instruments held in its portfolio that are either carried at fair value on the face of the financial statements or disclosed in the notes to the financial statements at fair value, from a number of sources. These sources include published market quotes for active market exchange traded instruments, third party pricing vendors, investment banks which are lead market makers in certain markets, broker quotes and the use of internal valuation models that use market observable inputs when available and Company derived inputs when external inputs are not available or deemed to be inaccurate. Unrealized gains and losses on investments carried at fair value are recorded directly in unassigned surplus. The investment portfolio is reviewed for investments that may have experienced a decline in value considered to be other-than-temporary. The Company considers several factors in determining whether other-than-temporary declines exist: duration and extent to which the fair value of the security has been less than cost; financial condition of the issuer; the near term prospects for recovery of the fair value of a security; discounted estimated future cash flows; and the intent and ability of the Company to hold the security to allow for an anticipated recovery in value. Impairments that are considered other-than-temporary are included in net realized capital losses.

The Company’s investment portfolio includes securities with a 5GI NAIC designation. There were two securities that have a 5GI NAIC designation with an aggregated book adjusted carrying value and aggregate fair value of \$9 million as of December 31, 2018. There were two securities that have a 5GI NAIC designation with a book adjusted carrying value and fair value of \$10 million as of December 31, 2017.

Valuation methods for the various types of investments held are as follows:

Bonds - Bonds are stated principally at amortized cost with bond premiums and discounts amortized using the scientific interest method. Those bonds which are rated 6 by the NAIC are reported at the lower of amortized cost or fair value. Mortgage-backed bonds are carried at amortized cost using the interest method considering anticipated prepayments at the date of purchase. Significant changes in future anticipated cash flows from the original purchase assumptions are accounted for using the retrospective and prospective adjustment method utilizing the Public Securities Association standard prepayment rates. There were forty-six securities that were sold, redeemed or disposed of with an aggregate amount of \$13 million in investment income from prepayment penalties and acceleration fees as of December 31, 2018. There were fifty-six securities that were sold, redeemed or disposed of with an aggregate amount of \$29 million in investment income from prepayment penalties and acceleration fees as of December 31, 2017.

Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from issuers or broker- dealers through information services or internal estimates and are consistent with current interest rates and the economic environment. There were fifty-four securities that were sold, redeemed or disposed of with an aggregate amount of \$401 million and \$3.3 million in investment income from prepayment penalties as of December 31, 2018. There were forty-six securities that were sold, redeemed or disposed of with an aggregate amount of \$504 million and \$8 million in investment income from prepayment penalties as of December 31, 2017.

The Company changes from the retrospective method to the prospective method when an other than temporary impairment has been recorded on a structured loan-backed security.

Preferred stocks - Preferred stocks are carried at amortized cost if they have an NAIC SVO rating of 1 to 3 or the lower of book value or fair value based on the rating of 4 to 6.

Common stocks - Common stocks of unaffiliated companies are stated at fair value, which is based on quoted market price. For common stocks without quoted market prices, fair value is estimated using independent pricing services or internally developed pricing models. Investments in subsidiaries are included in common stocks and are valued at equity in the underlying net assets. Undistributed earnings or losses of subsidiaries and unrealized appreciation or depreciation on common stocks are reflected as unrealized capital gains and losses directly in Surplus.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Foreign Currency Translation - All of the Company's insurance operations are conducted in the United States of America on a U.S. dollar-denominated basis. The Company does make bond, equity and other investments that are denominated in foreign currencies or issued by entities doing business in other countries. Investments denominated in a foreign currency are translated to U.S. dollars at each reporting date using then-current market foreign exchange rates. Translation gains or losses relating to fluctuations in market exchange rates are reported as a change in unrealized capital gains and losses until the related investment security is sold or matures, at which time a realized capital gain or loss is reported. Transactions denominated in a foreign currency, such as receipt of foreign-denominated interest or dividends, are translated to U.S. dollars based on the actual exchange rate at the time of the transaction.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The amortized cost basis and estimated fair value of bonds and the cost basis and estimated fair value of preferred stock and common stocks at December 31, 2018 and December 31, 2017 is as follows:

	Amortized Cost/ Cost*	Gross Unrealized		Estimated Fair Value
		Gains	(Losses)	
(In millions)				
December 31, 2018				
U.S. Government	\$ 1,821	\$ 60	\$ (6)	\$ 1,875
All other Government States, Territories, and Possessions	70	-	-	70
U.S. Political Subdivisions	317	33	(2)	348
U.S. Special Revenue	251	20	(1)	270
Industrial and Miscellaneous	2,534	147	(23)	2,658
Hybrid	34,353	653	(993)	34,013
Affiliated Bonds	6	1	-	7
Total Bonds	\$ 39,361	\$ 914	\$ (1,025)	\$ 39,250
Common stocks - unaffiliated	\$ 695	20	(54)	\$ 661
Investment in subsidiaries	1,366	20	(236)	1,150
Total Common Stocks	2,061	\$ 40	\$ (290)	1,811
Preferred Stocks - Perpetual	\$ -	-	-	-
Total Preferred Stocks	-	-	-	-
Total Common and Preferred Stocks	\$ 2,061	\$ 40	\$ (290)	\$ 1,811
(In millions)				
December 31, 2017				
U.S. Government	\$ 2,475	\$ 46	\$ (8)	\$ 2,513
All other Government States, Territories, and Possessions	65	-	-	65
U.S. Political Subdivisions	336	52	-	388
U.S. Special Revenue	262	30	-	292
Industrial and Miscellaneous	2,517	231	(9)	2,739
Hybrid	32,455	1,874	(140)	34,189
Affiliated Bonds	5	1	-	6
Total Bonds	\$ 38,125	\$ 2,234	\$ (157)	\$ 40,202
Common stocks - unaffiliated	\$ 513	55	(32)	\$ 536
Investment in subsidiaries	1,316	18	(339)	995
Total Common Stocks	1,829	73	(371)	1,531
Preferred Stocks - Perpetual	\$ -	-	-	-
Total Preferred Stocks	-	-	-	-
Total Common and Preferred Stocks	\$ 1,829	\$ 73	\$ (371)	\$ 1,531

* Includes unrealized FX adjustments

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The Company invests in high quality securities that are diversified by asset class, issuer and industry. At December 31, 2018 approximately 4.8% of the portfolio is invested in securities issued or backed by the United States Government or its agencies. No other single issuer accounts for more than 1.8% of the portfolio at December 31, 2018.

The amortized cost and estimated fair value of debt securities at December 31, 2018 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	<u>2018</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(In millions)	
Due in one year or less	\$ 406	\$ 407
Due after one year through five years	6,718	6,697
Due after five years through ten years	10,494	10,259
Due after ten years	15,314	15,323
Sinking fund bonds, mortgage backed securities and asset backed securities	6,429	6,564
Total	<u>\$ 39,361</u>	<u>\$ 39,250</u>

The net change in unrealized capital gains (losses) included in surplus for year ended December 31, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Changes in net unrealized capital gains (losses) attributable to:		
Bonds (NAIC 6 rated)	\$ -	\$ 4
Preferred Stocks (NAIC 4, 5 and 6 rated)	-	-
Common stocks unaffiliated	(57)	31
Common stocks affiliated	103	(21)
Foreign currency translation	(52)	59
Other	159	(47)
Total change in net unrealized capital gains (losses)	<u>153</u>	<u>26</u>
Tax benefit	(9)	-
Total change in net unrealized gains, net of tax	<u>\$ 144</u>	<u>\$ 26</u>

Proceeds from sales, maturities and all other bond cash dispositions amounted to \$12,450 million and \$14,248 million for the years ended December 31, 2018 and 2017, respectively. Gross gains of \$106 million and \$413 million and gross losses of \$301 million and \$147 million were realized on sales of bonds for the years ended December 31, 2018 and 2017, respectively. These amounts are pre-tax and pre-IMR.

Proceeds from sales of investments in preferred stock amounted to \$0 million and \$69 million for the years ended December 31, 2018 and 2017, respectively. Gross gains of \$0 million and \$28 million and gross losses of \$0 million and \$0 million were realized on sales of preferred stock for the years ended December 31, 2018 and 2017, respectively. These amounts are pre-tax.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Proceeds from sales of investments in common stock amounted to \$204 million and \$294 million for the years ended December 31, 2018 and 2017, respectively. Gross gains of \$22 million and \$22 million and gross losses of \$30 million and \$6 million were realized on sales of common stock for the years ended December 31, 2018 and 2017, respectively. These amounts are pre-tax.

During 2018 and 2017, there were no restructured loans.

During 2018 and 2017, the Company had non-cash transactions related to the exchange or conversion of bonds that it held as investments in the amount of \$2,309 million and \$2,236 million.

During 2018 and 2017, the Company had non-cash transactions related to the exchange or merger activity related to common stock that it held as investments in the amount of \$88 million and \$0 million.

During 2018 and 2017, the Company had no non-cash transactions related to the exchange or conversion of preferred stock that it held as investments.

Unrealized Losses:

The Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2018 and December 31, 2017 are shown below:

<u>December 31, 2018</u> (In millions)	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
U.S. Government	\$ 333	\$ (3)	\$ 177	\$ (3)	\$ 510	\$ (6)
All other Government States, Territories and Possessions	-	-	10	-	10	-
U.S. Political Subdivisions	47	(1)	27	(1)	74	(2)
U.S. Special Revenue	747	(12)	295	(11)	1,042	(23)
Industrial and Miscellaneous	15,257	(690)	5,299	(303)	20,556	(993)
Hybrid	1	-	-	-	1	-
Total Bonds	\$ 16,428	\$ (707)	\$ 5,808	\$ (318)	\$ 22,236	\$ (1,025)
Common stocks - unaffiliated	435	(46)	48	(8)	483	(54)
Total temporarily impaired securities	\$ 16,863	\$ (753)	\$ 5,856	\$ (326)	\$ 22,719	\$ (1,079)

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

<u>December 31, 2017</u> (In millions)	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Government	\$ 967	\$ (6)	\$ 57	\$ (2)	\$ 1,024	\$ (8)
All other Government	15	-	-	-	15	-
States, Territories and Possessions	13	-	17	-	30	-
U.S. Political Subdivisions	-	-	-	-	-	-
U.S. Special Revenue	207	(2)	343	(7)	550	(9)
Industrial and Miscellaneous	4,523	(54)	2,764	(86)	7,287	(140)
Hybrid	-	-	-	-	-	-
Total Bonds	\$ 5,725	\$ (62)	\$ 3,181	\$ (95)	\$ 8,906	\$ (157)
Common stocks - unaffiliated	8	(1)	119	(31)	127	(32)
Total temporarily impaired securities	\$ 5,733	\$ (63)	\$ 3,300	\$ (126)	\$ 9,033	\$ (189)

The Company's investment portfolio includes individual securities that are in an unrealized loss position and have not been recognized as other-than-temporary impairments. There were one thousand six hundred and thirty-nine securities in an unrealized loss position for greater than 12 months with a book value of \$6,182 million and a fair value of \$5,856 as of December 31, 2018. There were four hundred and sixty-four securities in an unrealized loss position for greater than 12 months with a book value of \$3,426 million and a fair value of \$3,300 as of December 31, 2017.

In reaching the conclusion that these impairments are not other-than-temporary, management considered many factors including: duration and severity of impairment, discounted cash flow analysis, investment sector stability, creditworthiness, financial condition of issuer, and intent and ability to hold to allow for recovery in value.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Mortgage Loans:

Mortgage loans are carried at amortized cost. Valuation reserves are established for potential declines in the value of the mortgage loans. As of December 31, 2018 and December 31, 2017 there were no valuation reserves established for any of the Company's mortgage loans. Other-than-temporary impairments on loans are charged to net realized capital losses and are not adjusted for subsequent recoveries in value. There were no other-than-temporary impairments on mortgage loans for the years ended December 31, 2018 and 2017, respectively.

The Company's \$4,520 million and \$4,001 million of investments in mortgage loans on real estate on December 31, 2018 and December 31, 2017 consist of loans on commercial real estate properties. Of these amounts \$2,225 million and \$1,682 million were mortgage loans in which the Company was a participant at December 31, 2018 and December 31, 2017. The Company had \$34 million and \$0 million in co-lender loan exposure as of December 31, 2018 and December 31, 2017. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas (\$1,055 million or 23.35% and \$601 million or 13.29%) at December 31, 2018. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas (\$1,209 million or 30.24% and \$351 million or 8.76%) at December 31, 2017. The Company estimates the fair value of mortgage loans on real estate to be \$4,496 million and \$4,085 million at December 31, 2018 and December 31, 2017, respectively. Fair value was determined based upon the present value of the scheduled future cash flows of each loan based on the average term to maturity discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for a similar quality mortgage. The minimum and maximum range of lending rates on new mortgage loans were between 3.56% and 5.00% originated during 2018. The maximum percentage of any single mortgage loan to the value of the security for loans that originated in 2018 was 63.83% at origination date.

Management monitors its mortgage loan portfolio on an ongoing basis for events or circumstances that could indicate that it will not receive all of its contractually due principal and interest payments in accordance with the loan agreements. In May and November of each year, the entire portfolio is screened based on debt service coverage, loan to value ratio, delinquency over 90 days and if there are indications that balloon payments due at maturity will not be made to determine if any other than temporary impairments might need to be recorded.

Interest received on impaired loans that were previously modified in a troubled debt restructuring is either applied against the principal or reported as revenue according to management's judgment as to the collectability of principal. There were no mortgages with interest more than 180 days past due at December 31, 2018 or December 31, 2017, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The following table set forth the credit quality indicators as of December 31, 2018 and December 31, 2017, based upon the recorded investment gross of allowance for credit losses.

Mortgage Loans

	Debt Service Coverage Ratio - December 31, 2018						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	
Loan-to-Value Ratio							
0% - 49.99%	\$ 880	\$ 62	\$ 98	\$ 75	\$ 6	\$ 1	\$ 1,122
50% - 59.99%	1,161	299	281	102	-	-	1,843
60% - 69.99%	1,025	65	189	42	-	-	1,321
70% - 79.99%	167	-	-	21	46	-	234
80% - 89.99%	-	-	-	-	-	-	-
90% - 100%	-	-	-	-	-	-	-
Greater than 100%	-	-	-	-	-	-	-
Total	\$ 3,233	\$ 426	\$ 568	\$ 240	\$ 52	\$ 1	\$ 4,520

Mortgage Loans

	Debt Service Coverage Ratio - December 31, 2017						Grand Total
	Greater than 2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	Less than 1.0X	
Loan-to-Value Ratio							
0% - 49.99%	\$ 939	\$ 62	\$ 178	\$ 24	\$ 19	\$ -	\$ 1,222
50% - 59.99%	798	263	181	120	21	-	1,383
60% - 69.99%	715	-	276	103	52	4	1,150
70% - 79.99%	140	18	-	38	47	3	246
80% - 89.99%	-	-	-	-	-	-	-
90% - 100%	-	-	-	-	-	-	-
Greater than 100%	-	-	-	-	-	-	-
Total	\$ 2,592	\$ 343	\$ 635	\$ 285	\$ 139	\$ 7	\$ 4,001

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Real Estate:

Real estate investments are reported in the financial statements at cost, less any valuation adjustment, encumbrances and accumulated depreciation of buildings and other improvements using a straight line method over a 40 year period for the buildings and the estimated useful life of the improvements. An investment in real estate is considered impaired when the projected undiscounted net cash flow from the investment is less than depreciated cost. When the Company determines that an investment in real estate is impaired, a valuation adjustment is recorded to reduce the carrying value to estimated fair value, after encumbrances, based on appraisal of the property. The valuation adjustment is included in realized capital gains (losses).

Real estate was comprised of the following for the years ended December 31, 2018 and December 31, 2017:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Investment real estate	\$ 328	\$ 341
Properties occupied by the Company	3	4
Total real estate	<u>\$ 331</u>	<u>\$ 345</u>

The Company had accumulated depreciation totaling \$108 million and \$102 million at December 31, 2018 and December 31, 2017, respectively. The Company recorded depreciation expense of \$18 million for 2018 and \$19 million for 2017. There was one property with carrying value of \$7.3 million, above its combined fair value of \$7 million at December 31, 2018. There were two properties with carrying value of \$22 million, above their combined fair value of \$20 million at December 31, 2017. There was no other-than-temporary impairment taken on real estate in 2018. There was one other-than-temporary impairment of \$4 million taken on real estate in 2017. The fair values were determined by a third party and internal appraisals. There were four home office properties with carrying value of \$10 million that were sold in 2017 resulting in a gain of \$2 million.

Restricted Assets and Special Deposits:

The Company had admitted restricted assets of \$79 million and \$12 million at December 31, 2018 and 2017, respectively. Of these amounts, there were deposits with states as required by certain insurance laws of \$4 million in 2018 and \$4 million 2017 and pledged as collateral for futures trading of \$12 and \$8 million in 2018 and 2017, respectively. These amounts are included in Bonds in the Statutory Basis Balance Sheets. There were \$12 million of FHLB NY stock purchased by the Company in 2018 which are classified as restricted general account investments within “Common and preferred stocks”. Also, as of December 31, 2018, the Company pledged mortgage loans with a carrying value of \$51 million that support outstanding funding agreements with the FHLB NY. There were no FHLB NY restricted stock or mortgage loan pledged as collateral in 2017. Total admitted restricted assets were 0.14% and 0.02% of the Company’s total admitted assets at December 31, 2018 and 2017, respectively. There were no non-admitted restricted assets in 2018 or 2017.

Investment in Subsidiaries:

Investment in affiliated limited liability subsidiaries are included in Other invested assets while investment in all other subsidiaries are included in Common stocks on the Statutory Basis Balance Sheets and totaled \$1,869 million and \$1,819 million at December 31, 2018 and December 31, 2017, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The Company's major subsidiaries are as follows:

Guardian Insurance and Annuity Company ("GIAC") is a stock life insurance company organized primarily for the sale of variable deferred annuities, fixed deferred and immediate annuity contracts, and variable life insurance policies. For variable products, contracts are sold by insurance agents who are licensed by Park Avenue Securities LLC ("PAS"), wholly-owned by GIAC, and are either registered representatives of PAS or of broker-dealer firms that have entered into sales agreements with GIAC. Effective September 1, 2016, GIAC sold its Group 401(k) in-force business to Ameritas Life Insurance Corp., a Nebraska corporation ("Buyer") and entered into an indemnity reinsurance agreement with the Buyer on a 100% modified coinsurance basis for the liabilities until the Buyer can obtain all of the required regulatory and contract holder approvals to novate the GIAC Group 401(k) in-force contracts through Assumption Reinsurance.

Berkshire Life Insurance Company of America ("BLICOA") is a stock life company whose primary business is the sale and administration of disability insurance business.

Park Avenue Life Insurance Company ("PALIC") primary business is the administration of life insurance business (principally term and universal life products). Although PALIC is licensed in 48 states and the District of Columbia, it does not currently write new business.

First Commonwealth, Inc. ("FCW") provides dental, vision and hearing care coverage for government and commercial customers.

Guardian Investor Services ("GIS") is a wholly-owned non-insurance limited liability company that provides investment advisory services and related services to the mutual funds, variable investment trusts, private investment unit trust, institutional and other clients through Park Avenue Institutional Advisers ("PAIA"), wholly-owned subsidiary of GIS. GIS provides absence management services to organizations and also holds investments in real estate operating entities and joint ventures, residual interests in collateralized loan obligation securities and investments in early stage companies. On December 31, 2018, GIS recognized a loss on its sale of its dental service organization ("DSO") business.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Selected financial information for the Company's significant subsidiaries is highlighted below:

	<u>2018</u>		<u>2017</u>
	(In millions)		
GIAC (Statutory basis)			
Total assets	\$ 13,310	\$	17,360
Total liabilities	12,855		17,050
Net income	\$ 148	\$	26
BLICOA (Statutory basis)			
Total assets	\$ 3,928	\$	3,718
Total liabilities	3,735		3,529
Net (loss)/income	\$ (13)	\$	11
PALIC (Statutory basis)			
Total assets	\$ 233	\$	236
Total liabilities	183		195
Net income	\$ 6	\$	5
FCW (GAAP basis)			
Total assets	\$ 589	\$	586
Total liabilities	118		112
Net income	\$ 32	\$	28
GIS (GAAP basis)			
Total assets	\$ 2,202	\$	1,962
Total liabilities	1,468		1,129
Net (loss)/income	\$ (48)	\$	2

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Investment in Subsidiaries

The following table provides additional information on non-insurance subsidiaries.

December 31, 2018

Description of SCA Investment (Per SSAP No 97)	% of SCA Ownership	Gross Amount	Non- admitted Amount	Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing)	NAIC Response Received (yes/no)	NAIC Valuation (Amount)	NAIC Disallowed	Code
									Entity's Valuation Method, Resubmission Required (yes/no)	
(In millions)										
Managed Dental Care of California	100%	\$ 4	\$ -	\$ 4	12/31/2017	Sub-2	Y	\$ 4	no	I
First Commonwealth	100%	440	-	440	12/31/2017	Sub-2	Y	443	no	I
Innovative Underwriters	100%	7	7	-	-	Sub-2	n/a	-	n/a	I
Guardian Investors Services, LLC	100%	720	-	720	-	n/a	n/a	-	n/a	I
Guardian Acquisition I, LLC	100%	27	27	-	-	n/a	n/a	-	n/a	I
Aggregate Total		\$ 1,198	\$ 34	\$ 1,164				\$ 447		

December 31, 2017

Description of SCA Investment (Per SSAP No 97)	% of SCA Ownership	Gross Amount	Non- admitted Amount	Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing)	NAIC Response Received (yes/no)	NAIC Valuation (Amount)	NAIC Disallowed	Code
									Entity's Valuation Method, Resubmission Required (yes/no)	
(In millions)										
Managed Dental Care of California	100%	\$ 4	\$ -	\$ 4	12/30/2016	Sub-2	Y	\$ 5	no	I
First Commonwealth	100%	443	-	443	12/30/2016	Sub-2	Y	508	no	I
Innovative Underwriters	100%	6	6	-	-	Sub-2	n/a	-	n/a	I
Guardian Investors Services, LLC	100%	824	-	824	-	n/a	n/a	-	n/a	I
Guardian Acquisition I, LLC	100%	24	24	-	-	n/a	n/a	-	n/a	I
Aggregate Total		\$ 1,301	\$ 30	\$ 1,271				\$ 513		

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

NET INVESTMENT INCOME

Net investment income, including accrual of discounts and amortization of premiums, arose from the following sources for the years ended December 31, 2018 and December 31, 2017:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Bonds	\$ 1,637	\$ 1,611
Preferred stocks	-	-
Unaffiliated common stocks	13	24
Affiliated common stocks	45	47
Mortgage loans	171	166
Real estate	64	69
Policy loans	262	253
Cash and short-term investments	13	6
Other (mainly private equities)	154	155
	<u>2,359</u>	<u>2,331</u>
Gross investment income		
Less investment expenses	(227)	(225)
	<u>2,132</u>	<u>2,106</u>
Net investment income	\$	\$

NET REALIZED CAPITAL (LOSSES) GAINS

Net realized capital losses were derived from the following sources for the years ended December 31, 2018 and December 31, 2017:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Bonds	\$ (208)	\$ 255
Preferred stocks	-	28
Common stocks (unaffiliated & affiliated)	(8)	15
Mortgage loans	-	(7)
Real estate	25	12
Other invested assets	(171)	5
Derivatives and hedging losses gains	(17)	(18)
Other realized losses	-	1
	<u>(379)</u>	<u>291</u>
Total net realized capital gains		
Capital gains tax benefit/(expense)	51	(152)
Transfer from/(to) IMR (net of tax)	156	(166)
Net realized capital losses	\$ <u>(172)</u>	\$ <u>(27)</u>

The net realized capital loss amount above includes other-than-temporary impairment losses of \$192 million and \$54 million for the years ended December 31, 2018 and December 31, 2017, respectively. Of the \$192 million for 2018, \$59 million relates to impairments that reduced surplus which were driven primarily by \$39 million for GIS' sale of the DSO business and \$14 million in bonds. The remaining \$133 million relates primarily to \$90 million in investment tax credit investments and \$30 million for private equities. Of the \$54 million for 2017, \$15 million relates to impairments that reduced surplus which consists of \$11 million in bonds and \$4 million in real estate. The remaining \$39 million relates to private equities.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Derivative Financial Instruments:

The Company enters into derivative transactions in order to mitigate (“hedge”) certain risks pertaining to its assets, liabilities and surplus from fluctuations in interest rates, foreign currency exchange rates and market volatility. Derivatives are either exchange traded or contracted over-the-counter. The majority of the Company’s over-the-counter derivatives are bilateral contracts between the Company and a single counterparty. The Company’s remaining over-the-counter derivatives are cleared and settled through central clearing counterparties.

Derivatives that are designated as hedges for accounting purposes and meet the qualifications for hedge accounting are reported on a basis consistent with the asset or liability being hedged (i.e. at amortized cost). Derivatives that are used to mitigate risk but are not designated as hedges for accounting purposes or do not meet the qualifications for hedge accounting treatment are reported at fair value.

To qualify for hedge accounting the hedge relationship must be designated and formally documented at inception. This documentation details the risk management objective and strategy for the hedge, the derivative used in the hedge, the asset or liability being hedged, and the methodology for assessing hedge effectiveness. The hedge must also be “highly effective” with an assessment of its effectiveness performed both at inception and on an ongoing basis over the life of the hedge.

Derivative transactions expose the Company to the risk that the counterparty may not be able to fulfill its obligations under the terms set forth in the contract. The Company manages this counterparty risk by entering into transactions with counterparties that maintain a minimum credit rating, by performing ongoing review of a counterparties’ credit standing, by adhering to established limits for credit exposure to any single counterparty and requiring collateral posting subject to thresholds and minimum transfer amounts in accordance with counterparty agreements to support credit risk associated with counterparty exposures which further reduces the Company’s exposure to default by the counterparty. The Company is required to establish a margin account for all of its futures contracts. All of the futures contracts that the Company has entered into are exchange traded. Margin payments are required for futures contract and contract gains or losses are settled daily in cash, therefore the futures contracts are carried at zero value on the Company’s balance sheets. The contract amount of futures contracts represents the extent of the Company’s involvement, but not future cash requirements, as open positions are typically closed out prior to the delivery date of the contract. The Company does not offset the statement values for derivatives executed with the same counterparty, even if a master netting arrangement is in place. The Company also does not offset the right to claim collateral against the obligation to return such collateral.

The Company has no embedded credit derivatives that expose it to the possibility of being required to make future payments. The Company also does not have any derivative contracts with financing premiums.

Hedging – Designated As Hedging Instruments

The Company designates and accounts for its foreign currency swaps as cash flow hedges and certain equity index futures, treasury futures and S&P equity option as fair value hedges.

Foreign currency swaps are used to mitigate the foreign exchange risk for investments in specifically identified private placement bonds denominated in foreign currencies over a period of up to 15 years. Foreign currency swaps obligate the Company and a counterparty to exchange the foreign currency denominated interest and principal payments receivable on foreign denominated bonds for U.S. dollar payments based on currency exchange rates specified at the inception of the transaction. Foreign exchange gains or losses on these contracts are reported as a change in unrealized gains or losses until the maturity or sale of the hedged foreign currency bond at which time a realized capital gain or loss is recognized.

Equity index futures are used to mitigate the change in value of the liability the Company has to participants in its deferred compensation plans that allocate their plan account balances to equity funds offered under the plan. Equity index futures obligate the Company to pay or receive from a counterparty a cash amount based on a specified equity market index at a predefine price as of a future date applied to the notional amount of the contracts. The change in the fair value of the futures contracts is recorded in current period earnings as income or expense which offsets the operating gain or loss from the change in value of its deferred compensation liability. If the hedge is deemed to be ineffective for any period of time, the change in the fair value of the futures contracts for that time period is recorded in surplus as an unrealized gain or loss.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Treasury futures are used to mitigate the portion of the change in fair value related to a change in interest rates on specifically identified assets acquired by the Company and held in its general account to support the Funding Agreements (“FA”) and the specifically identified portion of a liability incurred by the Company pertaining to FA that are issued by the Company to back Medium Term Notes (“MTN”) issued by a special purpose entity.

The Company enters into short positions (sells) treasury futures contracts prior to the issuance of the FA-MTN in order to lock-in the interest rate component of the return of the designated assets at their date of acquisition. When the FA-MTN is issued the Company enters into long position (purchases) treasury futures contracts in order to mitigate the change in the fair value of the designated net liability due to the effects of interest rate changes. The change in the fair value of the futures contracts is recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in value of its FA liability.

Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

S&P equity options are used by the Company as a risk management strategy to reduce the projected dividend liability exposure on its Index Participation Feature (“IPF”) which is a rider on certain whole life contracts. The Company uses a combination of short positions (sell) and long positions (purchases) of over-the-counter European call options on the S&P 500 index with expiration of one year to mitigate the dividend liability exposure based on the future return on S&P 500 index for the annual period of the monthly segment being hedged between the guaranteed floor rate and the cap rate on the participating balances. The change in the fair value of the options contracts is recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in the amount of the dividend liability.

Hedging – Not Designated As Hedging Instruments

The Company enters into other derivative transactions that mitigate economic risks but are not designated as a hedge for accounting purposes or do not qualify for hedge accounting treatment. These derivative instruments are reported at fair value on the balance sheet as either other invested assets or other liabilities. Changes in the fair value of these instruments are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recorded.

Treasury futures are used to mitigate the key rate duration mismatch between the designated segment of the general account asset portfolio and the custom composite benchmarks for that segment designed to incorporate certain interest rate characteristics of the liabilities that those assets support. Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

Foreign currency futures are used to mitigate the foreign exchange risk of investments in foreign denominated bonds securities. Foreign currency futures are exchange traded and settled daily. Foreign currency futures obligate the Company to exchange a specified amount of foreign currency at a specified rate on a future date.

Equity index futures are used to mitigate market fluctuations of the Company’s portfolio of unaffiliated common stock and other mark to market assets and to minimize the volatility associated with certain liabilities. Equity index futures obligate the Company to pay or receive from a counterparty a cash amount based on a specified equity market index at a predefine price as of a future date applied to the notional amount of the contracts.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Foreign currency forwards are used to mitigate the foreign exchange risk for investments in foreign denominated bonds or foreign denominated equity investments. Foreign currency forwards obligate the Company and the counterparty to exchange U.S. dollars and another currency at a specified future date and at a specified price.

Credit default swaps index (“CDX”) are used to reduce the credit risk exposure on a specified portfolio of corporate bonds. The Company purchases CDX contracts in which it receives payments if there is a credit event on one or more of the specified securities contained in the index. These payments would be used to offset any credit losses recorded on the portfolio of bonds being hedged.

The Company also entered into short positions (sells) treasury futures contracts in order to lock in the interest rate as of the date the hedge was entered into for a surplus note that was issued in January 2017.

Replications

The Company purchased treasury futures as part of a replication transaction used to manage interest rate exposure. Statutory accounting guidance requires a cash instrument (high quality bond) with the same par value as the notional amount of the derivative and at least the same duration as the treasury futures to be held by the Company in order to cover the change in value of the treasury futures. The combining of the treasury futures and the cash instrument creates the replication (synthetic bond). If the replicated asset and cash instrument are carried at amortized cost so is the derivative. Otherwise, the derivative is carried at fair value.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The effects of the Company's use of derivative instruments on the Balance Sheets and Statements of Operations:

December 31, 2018	Notional Amount	Statement Value		Change in Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income	Gain/(loss) from Operations
		Assets	Liabilities				
				(in millions)			
<u>Derivatives designated as hedging instruments:</u>							
Foreign currency swaps	\$ 1,011	\$ -	\$ -	\$ 53	\$ -	\$ -	\$ -
Equity index futures	204	-	-	-	-	-	(24)
Treasury futures	102	-	-	-	3	-	-
S&P equity options	13	-	-	-	-	-	-
<u>Derivatives not designated as hedging instruments:</u>							
Treasury futures	254	-	-	2	(14)	-	-
Equity index futures	-	-	-	-	(1)	-	-
Credit default swap index	-	-	-	-	(5)	-	-
Total derivatives	<u>\$ 1,584</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ (24)</u>
December 31, 2017				(in millions)			
	Notional Amount	Statement Value		Change in Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income	Gain/(loss) from Operations
		Assets	Liabilities				
<u>Derivatives designated as hedging instruments:</u>							
Foreign currency swaps	\$ 816	\$ 13	\$ -	\$ (63)	\$ -	\$ -	\$ -
Equity index futures	213	-	-	-	-	-	36
Treasury futures	88	-	-	-	(15)	-	-
S&P equity options	5	-	-	-	-	-	-
<u>Derivatives not designated as hedging instruments:</u>							
Treasury futures	45	-	-	1	(1)	-	-
Equity index futures	1	-	-	-	-	-	-
Credit default swap index	-	-	-	-	(1)	-	-
Total derivatives	<u>\$ 1,168</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ (62)</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ 36</u>

Repurchase Agreements:

The Company periodically enters into repurchase agreements whereby securities will be resold at a predefined price. There were no repurchase agreements as of December 31, 2018 and December 31, 2017, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Reverse Repurchase Agreements:

The Company periodically enters into reverse repurchase arrangements whereby certain securities are loaned, primarily with major brokerage firms. The Company's policy requires a minimum of 95% of the fair value of the loaned securities as collateral, calculated on a daily basis, in the form of either cash or securities. Collateral assets received and related liabilities due counterparties are included in the Statutory Basis Balance Sheets as "Other Liabilities". There were no open reverse repurchase agreements on December 31, 2018 or December 31, 2017.

Securities Lending

There were no securities on loan at December 31, 2018 or December 31, 2017.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Statutory guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions based on internally developed data in the absence of observable market information. The guidance requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when determining the fair value of an asset or liability. The statement classifies all assets and liabilities carried or disclosed at fair value in one of the following three categories:

Level 1 – inputs are quoted market prices available in active markets for identical assets or liabilities on the reporting date.

Level 2 – inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – inputs are unobservable where there is little or no market activity for the asset or liability and the Company makes estimates and assumptions based on internally derived information.

The estimated fair values presented below have been determined using available information and valuation methodologies. The estimated fair value for financial instruments held by the Company was determined by management after considering the following sources of information: published market quotes for active exchange traded instruments, third party pricing vendors, quotes from investment banks that are lead market makers in certain markets, independent broker quotations, or the use of internal valuation models that use market observable inputs when available and Company derived inputs when external inputs are not available or deemed to be inaccurate. Considerable judgment is applied in interpreting data to develop the estimates of fair value. Accordingly, such amounts are management's estimate of the value that would be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies from period to period based on available information and market conditions could have a material effect on the estimated fair values.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bonds, preferred and common stocks:

Estimated fair values for bonds, other than private placement securities, preferred stock and common stock are valued based on quoted prices from active markets when available (Level 1).

When the Company cannot obtain a quoted market price directly it relies on values provided by a third party pricing vendor. This is the pricing source for the majority of the Company's marketable securities. Prices received from a third party vendor are generally considered to be Level 2.

Pricing vendors utilize pricing models developed for individual asset classes which incorporate available market data. These market inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data which include market research publications. The pricing vendor may obtain broker quotes for securities when sufficient information is not available to fully evaluate a security. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants.

Portfolio managers review the values assigned by the pricing vendor for reasonableness. In doing so, they compare the prices received from the pricing vendor to prices of similar securities, price ranges in that asset class or industry or prices from internally generated position reports. If there is a discrepancy with the price received from the vendor, the portfolio manager may communicate this difference to the pricing vendor and present the vendor with additional market data regarding that security in order to insure the pricing vendor has sufficient information needed to accurately price the security. The pricing vendor will then independently validate and evaluate that data and determine if a price change is warranted.

In the rare instance when a portfolio manager finds a difference in his or her assessment of fair value and the vendor price, after performing the preceding procedures, the portfolio manager may request replacement of the vendor price by a supportable value that is believed to be more representative of the security price. Any replacement of the vendor price is subject to an internal approval process.

The fair values of private placement bonds are determined by using an internal pricing model or for a small amount of securities, assigned individual broker prices. There were seventy-seven private placement bonds that were individually priced. These assigned individual prices are usually obtained from an external broker ("hand priced") and are considered to be Level 3.

The significant inputs used for the internal pricing model consist of (i) a broker supplied price matrix, (ii) treasury rates and (iii) credit ratings from certain nationally recognized securities rating organizations ("NRSRO") ("external ratings") or a credit rating assigned internally by the Company's Private Placement Investment Management Group ("internal ratings").

Private placement bonds with an applicable external credit rating of BB or above, for which the corresponding matrix price is used, are classified as Level 2. A private placement bond with an applicable external credit rating of below BB is classified as Level 3 due to the limited amount of market data available for these securities.

Bonds are carried at amortized cost unless they are rated 6 by the NAIC SVO in which case they are reported at the lower of amortized cost or fair value. There no bonds rated 6 by the NAIC SVO and carried at fair value on December 31, 2018 and December 31, 2017. Impaired bonds carried at fair value on December 31, 2018 and December 31, 2017 were \$40 million and \$7 million, respectively.

Preferred stock is carried at amortized cost if they have a NAIC SVO rating of 1, 2 or 3 and at lower or cost or fair value if the rating assigned is 4, 5 or 6. There were no preferred stocks carried at fair value on December 31, 2018 and December 31, 2017. Unaffiliated common stocks are reported at fair value.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives:

Derivative instruments are valued through the use of quoted market prices for exchange-traded derivatives (Level 1), third party pricing model and a third party pricing service for over-the-counter (“OTC”) traded derivatives (Level 2) and by using internally developed estimates and assumptions when no quoted market price or third party vendor price is available (Level 3).

The third party pricing model used to determine fair value, when quoted market values are not available, is based on market standard valuation methodologies and inputs that are assumed to be consistent with what market participants would use when pricing the instruments. The significant inputs to the pricing models for most over-the-counter derivatives are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Significant observable inputs include: interest rates, foreign currency exchange rates, interest rate curves, credit curves and volatility.

The methodology used by the third party pricing service for derivative investments is the same as that described above under the bonds, preferred and common stocks section.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarize the Company's financial instruments carried at fair value by their fair value/NAV hierarchy levels for the period ending December 31, 2018 and December 31, 2017:

	December 31, 2018					
	Level 1	Level 2	Level 3	Total Fair Value	NAV	Carrying Amount
(In millions)						
Assets						
Impaired Bonds	\$ -	\$ 40	\$ -	\$ 40	\$ -	\$ 40
Common Stock	-	579	12	591	70	661
Total Assets	<u>\$ -</u>	<u>\$ 619</u>	<u>\$ 12</u>	<u>\$ 631</u>	<u>\$ 70</u>	<u>\$ 701</u>
Liabilities						
Derivative instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2017					
	Level 1	Level 2	Level 3	Total Fair Value	NAV	Carrying Amount
(In millions)						
Assets						
Impaired Bonds	\$ -	\$ -	\$ 7	\$ 7	\$ -	\$ 7
Common Stock	-	457	-	457	79	536
Total Assets	<u>\$ -</u>	<u>\$ 457</u>	<u>\$ 7</u>	<u>\$ 464</u>	<u>\$ 79</u>	<u>\$ 543</u>
Liabilities						
Derivative instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes changes to the Company's financial instruments carried at fair value and classified as level 3 in the fair value hierarchy for the year ended December 31, 2018.

Level 3 Roll Forward (In Millions)	As of December 31, 2018			
	NAIC 6 Bonds	Impaired Bonds	Common Stock	Total
Fair Value, beginning of period	\$ -	\$ 7	\$ -	\$ 7
Total gains or (losses) (realized or unrealized):				-
Included in net income	-	-	-	-
Included in surplus	-	-	-	-
Purchases, sales, issuances, and settlements:				-
Purchases	-	-	12	12
Sales	-	(7)	-	(7)
Issuances	-	-	-	-
Settlements	-	-	-	-
Transfers into Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
Fair value, end of period	\$ -	\$ -	\$ 12	\$ 12

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2018, the Company transferred one security into Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

Level 3 Roll Forward (In Millions)	As of December 31, 2017			
	NAIC 6 Bonds	Impaired Bonds	Common Stock	Total
Fair Value, beginning of period	\$ -	\$ -	\$ -	\$ 0
Total gains or (losses) (realized or unrealized):				-
Included in net income	-	-	-	-
Included in surplus	-	-	-	-
Purchases, sales, issuances, and settlements:				-
Purchases	-	-	-	-
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	-	-	-	-
Transfers into Level 3	-	7	-	7
Transfers out of Level 3	-	-	-	-
Fair value, end of period	\$ -	\$ 7	\$ -	\$ 7

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2017, the Company transferred one security into Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 5 – RESERVES FOR POLICY BENEFITS

Reserves for policy benefits represent the estimated net present value of future policy benefits, less future policy premiums, established using actuarial methods based on mortality and morbidity experience tables and valuation interest rates prescribed by the Department. Actual future experience will generally differ from assumptions used to determine these reserves.

Reserves for future policy benefits on life insurance issued in 1988 and later are calculated principally on the New Jersey Reserve Method or the Commissioners Reserve Valuation Method using the 1980 Commissioners' Standard Ordinary ("CSO"), the 2001 CSO, and the 2017 CSO mortality tables. Reserves on life policies issued before 1988 are calculated principally on the Net Level Premium Reserve Method using the American Experience, 1941, 1958 and 1980 CSO mortality tables. Annuity contract reserves are principally calculated using the 1983 Group Mortality table and the various Individual Annuity mortality tables. Assumed interest rates principally range from 2.5% to 5.5 % for direct business.

The reserves for Group Life Waiver and LTD reported claims are determined on a seriatim basis. Life waiver of premium reserves are determined primarily using the 1970 Inter-company Group Life Disability Table for claims incurred on or before December 31, 2008 and the 2005 Group Term Life Waiver Reserve Valuation Table for claims incurred on or after January 1, 2009. The interest rate is 4.0% for claims incurred on or before December 31, 2012 and 3.5% for claims incurred on or after January 1, 2013. Long-term disability reserves are determined using the 2012 Group Long-Term Disability Valuation Table for claims incurred on or after January 1, 2017 and Table 95a for claims incurred on or before December 31, 2016 for the first 24 months after disablement, and the 1987 Commissioners' Group Disability Table for greater than 24 months of disablement. The interest rates range from 2.75% to 5.0%, depending on the year of incurral. Short Term Disability (STD), Dental, and Medical claims incurred but not yet reported ("IBNR") reserves are estimated based on the Company's historical experience. Dental and Medical reserves include reasonable allowances for potential adverse deviation.

The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium paid beyond the date of death. The larger of legally computed reserves and cash surrender values on a policy-by-policy basis are held as liabilities. Plans, except for second-to-die plans, charge additional premiums for substandard lives based upon actual issue age. Second-to-die plans develop substandard reserves using the rated up age. Mean reserves are based on appropriate multiples of standard rates of mortality. As of December 31, 2018, the Company had \$15 billion of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of New York. The reserves to cover the above insurance totaled \$35 million. The Tabular Interest, the Tabular Less Actual Reserve Released and the Tabular Cost have been determined by formula. For the determination of Tabular Interest on funds not involving life for each valuation rate of interest, the tabular interest is calculated as the product of such valuation rate of interest times the average of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

At December 31, 2018 and December 31, 2017 the withdrawal characteristics of the Company's annuity reserves and deposit liabilities were as follows:

	As of December 31, 2018				
	(1) General Account	(2) Separate Account with Guarantees	(3) Separate Account Non Guaranteed	(4) Total	(4) % of Total
A. Subject to discretionary withdrawal:					
(1) With market value adjustment	\$ 10	\$ -	\$ -	\$ 10	0.5%
(2) At book value less current surrender charge of 5% or more	57	-	-	57	2.6%
(3) At fair value	-	-	-	-	-
(4) Total with adjustment or at fair value (Total of 1 through 3)	\$ 67	\$ -	\$ -	\$ 67	3.1%
(5) At book value without adjustment (with minimal or no charge or adjustment)	\$ 511	\$ -	\$ -	\$ 511	23.9%
B. Not subject to discretionary withdrawal	\$ 1,565	\$ -	\$ -	\$ 1,565	73.0%
C. Total (gross: direct + assumed)	\$ 2,143	\$ -	\$ -	\$ 2,143	100.0%
D. Reinsurance ceded	-	-	-	-	-
E. Total (net)* (C)- (D)	\$ 2,143	\$ -	\$ -	\$ 2,143	100.0%

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

	As of December 31, 2017				
	(1) General Account	(2) Separate Account with Guarantees	(3) Separate Account Non Guaranteed	(4) Total	(4) % of Total
A. Subject to discretionary withdrawal:					
(1) With market value adjustment	\$ 10	\$ -	\$ -	\$ 10	0.5%
(2) At book value less current surrender charge of 5% or more	60	-	-	60	3.3%
(3) At fair value	-	-	-	-	0.0%
(4) Total with adjustment or at fair value (Total of 1 through 3)	\$ 70	\$ -	\$ -	\$ 70	3.8%
(5) At book value without adjustment (with minimal or no charge or adjustment)	\$ 546	\$ -	\$ -	\$ 546	29.6%
B. Not subject to discretionary withdrawal	\$ 1,227	\$ -	\$ -	\$ 1,227	66.6%
C. Total (gross: direct + assumed)	\$ 1,843	\$ -	\$ -	\$ 1,843	100.0%
D. Reinsurance ceded	-	-	-	-	0.0%
E. Total (net)* (C)- (D)	\$ 1,843	\$ -	\$ -	\$ 1,843	100.0%

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

Note Programs

Funding agreements are investment contracts whose reserve liabilities are equal to the account value and are established by contract deposits, increased by interest credited and decreased by contract coupon payments and maturities. Contract holders do not have the right to terminate the contract prior to the contractually stated maturity date. Credited interest rates vary by contract and can be fixed or floating. Under the note programs, the Company creates special purpose entities (“SPEs”), which are investment vehicles or trusts, for the purpose of issuing medium-term notes to investors. Proceeds from the sale of the medium-term notes issued by these SPEs are used to purchase funding agreements from the Company. The medium term notes are secured by the funding agreements with the note issuer granting a security interest in the funding agreement to the indenture trustee for the notes. The payment terms of any particular series of notes are matched by the payment terms of the funding agreement securing the series. The Company has a \$3.0 billion Global Medium-Term Note Program of which \$1.5 billion notes have been issued with \$1.5 billion remaining outstanding as of December 31, 2018. The \$1.5 billion and \$1.2 billion is included in “Policyholder dividends payable and other contract liabilities” in the Statutory Basis Balance Sheets as of December 31, 2018 and December 31, 2017, respectively.

NOTE 6 – PREMIUM AND ANNUITY CONSIDERATIONS DEFERRED AND UNCOLLECTED

Gross deferred and uncollected life insurance premiums represent premiums due to be received from policy owners through the next policy anniversary date. Net deferred and uncollected life insurance premiums represent only the portion of gross premiums related to mortality charges and interest. Deferred and uncollected life insurance premiums at December 31, 2018 and December 31, 2017 were as follows:

Type	2018		2017	
	(In millions)		(In millions)	
	Gross	Net	Gross	Net
Ordinary new business	\$ 63	\$ 62	\$ 64	\$ 64
Ordinary renewal	696	598	674	581
Group life	179	359	175	351
Totals	\$ <u>938</u>	\$ <u>1,019</u>	\$ <u>913</u>	\$ <u>996</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS

Defined Benefit Plans:

The Company sponsors non-contributory defined benefit pension plans covering all eligible employees. These include tax-qualified plans, as well as nonqualified plans that provide benefits to certain participants in excess of ERISA limits for qualified plans. The Company's policy is to fully fund the obligations of qualified plans in accordance with ERISA requirements.

In addition to pension benefits, the Company provides certain health care, dental and life insurance benefits ("postretirement benefits") for retired employees. Substantially all of the employees and representatives may become eligible for these benefits if they reach retirement age while working for the Company.

In accordance with NAIC SAP, the costs associated with these required benefits are expensed over the period that the participant provides services to the Company, including recognition of assets and liabilities based on the funded status of the related plans. Pension assets are then non-admitted and thereby excluded from surplus.

Effective January 1, 2013, the Company adopted Statement of Statutory Accounting Principle No. 92, Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14 ("SSAP 92") and Statement of Statutory Accounting Principle No. 102, Accounting for Pensions, A Replacement of SSAP No. 89 ("SSAP 102"). These new statutory accounting standards require that estimates of the projected benefit obligations and accumulated benefit obligations include future benefit obligations due to non-vested participants. They also require that the Company's surplus as reported in the statements of financial position fully reflect any net liability related to the plans' projected benefit obligations, reduced by the fair value of any plan assets, including unrecognized net experience losses and prior service costs. Based on the funded status of the plans at December 31, 2012, the new standards reduced surplus by approximately \$260 million. The new standard permitted the Company an election to recognize this surplus reduction over a period of up to ten years, which the Company elected.

The table below discloses the remaining unrecognized transition impact:

<u>Surplus Impact at Transition</u>	
Transition Liability	\$ 260
Amount Recognized on January 1, 2013	(59)
Accelerated Transition Liability recognized	
due to funded status gains – December 31, 2013	(120)
Remaining Transition Liability - December 31, 2013	<u>81</u>
Transition amount recognized during 2014	(19)
Transition amount recognized during 2015	(33)
Transition amount recognized during 2016	(13)
Transition amount recognized during 2017	(13)
Transition amount recognized during 2018	(3)
Remaining Transition Liability - December 31, 2018	<u><u>\$ 0</u></u>

At December 31, 2018 there is no remaining transition impact to be recognized.

Plan Amendments

On September 8, 2016, the Company announced a plan amendment to freeze The Guardian Retirement Plan for Field Clerical Employees effective December 31, 2016. The plan amendment affects only the Field Clerical defined benefit pension plan. The announcement of the plan freeze resulted in a plan curtailment. As a result of this amendment, all plan participants ceased accruing additional benefits under the plan effective December 31, 2016. As of December 31, 2016, all active plan participants who completed one year of service (were hired no later than January 1, 2016) were fully vested in their accrued benefit. On September 26, 2016, the Company filed a determination letter with the Internal Revenue Service requesting approval to terminate the plan.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

On May 23, 2017, the Company received a favorable determination letter from the IRS. From September to October 2017, Plan participants who were not yet receiving annuity payments were offered a one-time opportunity to receive their benefit in a lump sum payment. Lump sum payments were mailed to participants in December 2017 and paid out using the Field Clerical defined benefit pension plan assets. The December 2017 Lump Sum payments attributable to Field Clerical defined benefit pension plan were \$35.3 million and resulted in a partial settlement. As a result, a settlement charge of \$10.5 million was recognized as of December 31, 2017, equal to a pro rata portion of the aggregate unamortized net loss (including the gain or loss resulting from re-measurement of the plan assets at fair value). The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the partial settlement.

On February 16, 2018 the Company contributed \$18.1 million to the Field Clerical plan to cover a funding shortfall in the plan. On February 20, 2018 the Company made a cash payment to purchase a group annuity contract to settle the remaining obligations to participants in the Field Clerical plan. As of December 31, 2018 the Company has no further obligation relating to the Field Clerical Pension Plan.

On February 21, 2017, the Company announced a plan amendment to close the Home Office Employees' Retirement Plan to employees hired on or after January 1, 2018. Home Office employees hired on or after January 1, 2018 will be offered a new defined contribution plan.

Components of Net Periodic Benefit Expense

The components of net periodic pension and postretirement benefits expense including the amount of unrecognized items amortized into expense for the years ended December 31 are as follows:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
	(In millions)			
Service cost	\$ 78	\$ 76	\$ 5	\$ 6
Interest cost	97	100	9	9
Expected return on plan assets	(147)	(131)	(10)	(9)
Amortization of transition amount	1	1	-	-
Amortization of prior service costs	-	-	-	(2)
Amortization of actuarial net loss	76	58	(2)	3
Curtailement	-	-	2	-
Settlement	25	11	-	-
	<u>130</u>	<u>115</u>	<u>4</u>	<u>7</u>
Net periodic expense	\$ <u>130</u>	\$ <u>115</u>	\$ <u>4</u>	\$ <u>7</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Changes in the projected benefit obligations and plan assets during the years ended December 31, 2018 and December 31, 2017 were as follows (in millions):

Change in benefit obligation	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Benefit obligation, at beginning of period	\$ 2,719	\$ 2,352	\$ 249	\$ 226
Service cost	78	76	5	6
Interest cost	98	101	9	9
Actuarial loss	(176)	282	(15)	20
Settlements	(88)	(37)	-	-
Benefits paid	(126)	(74)	(13)	(12)
Other	-	19	-	-
Benefit obligation, at end of period	\$ 2,505	\$ 2,719	\$ 235	\$ 249

Change in fair value of plan assets	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Plan assets, at beginning of period	\$ 2,072	\$ 1,766	\$ 145	\$ 134
Actual return on plan assets	(106)	252	(7)	23
Employer contributions	231	146	-	-
Settlements	(88)	(37)	-	-
Benefits paid	(126)	(74)	(13)	(12)
Other	(10)	19	(10)	-
Plan assets, at end of period	\$ 1,973	\$ 2,072	\$ 115	\$ 145

Funded status	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Funded status at end of period	\$ (532)	\$ (647)	\$ (120)	\$ (104)
Unrecognized transition liability	1	1	-	-
Unrecognized prior service costs	-	1	7	4
Unrecognized actuarial net loss	865	889	60	61
Net amount recognized	\$ 334	\$ 244	\$ (53)	\$ (39)

Recognized as of December 31	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Prepaid benefit cost	\$ -	\$ -	\$ -	\$ 11
Less assets non admitted	-	-	-	(11)
Accrued liability	(532)	(647)	(120)	(112)
Net amount recognized	\$ (532)	\$ (647)	\$ (120)	\$ (112)

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Unrecognized actuarial net gains or losses represent cumulative amounts by which plan experience for return on plan assets or changes in benefit obligations has been more or less favorable than assumed. These net differences are recognized in surplus, and in future years recognized as components of expense.

The amounts below are estimated to be amortized from surplus into net periodic benefit cost in 2019 as follows:

	Pension Benefits	Other Benefits
	(In millions)	
Net transition obligation	\$ 1	\$ -
Net prior service cost	-	(2)
Net loss	84	4
	<u>\$ 85</u>	<u>\$ 2</u>

Assumptions

Weighted average assumptions used in calculating the benefit obligations were as follows:

	Pension Benefits		Post Retirement Benefits	
	December 31,	December 31,	December 31,	December 31,
	2018	2017	2018	2017
Discount rate	4.40%	3.80%	4.40%	3.75%
Rate of compensation increase	3.00%	3.00%	n/a	n/a

Weighted average assumptions used in calculating the net periodic benefit cost were as follows:

	Pension Benefits For the Years Ended		Post Retirement Benefits For the Years Ended	
	December 31,	December 31,	December 31,	December 31,
	2018	2017	2018	2017
Discount rate	3.80%	4.35%	3.75%	4.30%
Rate of compensation increase	3.00%	3.00%	n/a	n/a
Expected return on plan assets:				
Assets in trust account	7.60%	7.80%	7.60%	7.80%
Assets held under insurance contract/other	n/a	n/a	n/a	n/a

Assumed health care cost trend rates were as follows:

	As of December 31,	
	2018	2017
Medical & Prescription Pre - Age 65	7.25%, grading to 4.5% over 12 years	7.5%, grading to 4.5% over 13 years

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The trend rates above reflect the Company's current claim experience and management's expectation that future rates of growth will decline. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. At December 31, 2018, a one-percent-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation ("APBO") for postretirement benefits by \$0.1 million and \$1.6 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by \$0.1 million and \$1.5 million, respectively. At December 31, 2017, a one-percent-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation ("APBO") for postretirement benefits by \$0.1 million and \$2.0 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by \$0.1 million and \$1.9 million, respectively.

The accumulated benefit obligations ("ABO") for the funded and unfunded pension plans were \$1,910 million and \$378 million, respectively, at December 31, 2018 and \$2,072 million and \$413 million, respectively, at December 31, 2017. The APBO for the postretirement plans was \$235 million at December 31, 2018 and \$249 million at December 31, 2017.

For the pension plans with ABO in excess of plan assets, the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were \$2,505 million, \$2,288 million, and \$1,973 million respectively at December 31, 2018 and \$2,719 million, \$2,485 million, and \$2,072 million respectively at December 31, 2017.

Prior to 2017, the pension plans held immediate participation guarantee group annuity ("IPG") contracts purchased from the Company. These contracts were expected to provide future benefits to plan participants specifically covered by these contracts of \$18 million at December 31, 2016. During 2017, the contract liabilities totaling \$19 million were transferred into the obligations of the pension plans and are reflected in the Projected Benefit Obligations of the plans. The IPG contracts are no longer active.

With respect to the Company's pension plans, the actuarially calculated funding amount ranges from the minimum amount the Company would be required to contribute to the maximum amount that would be deductible for tax purposes. Contribution amounts in excess of the minimum amounts are deemed voluntary. Amounts in excess of the maximum amount would be subject to an excise tax and may not be deductible under the Internal Revenue Code. The Company made contributions totaling \$218 million and \$142 million in 2018 and 2017, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Benefit Payments

The following table discloses the expected benefit payments for the Company's pension and postretirement plans.

Estimated Future Payments	Pension Benefits		Other Benefits	
	(In millions)			
2019	\$	149	\$	12
2020		152		13
2021		155		14
2022		160		15
2023-2027		166		16
2024-2028		875		87

Plan Assets

The Company's pension and postretirement plans' asset allocation by major asset class at December 31, 2018 and December 31, 2017, and the target allocation for 2019, are as follows:

Asset Category	Target Allocation	Percentage of Plan Assets at	
	2019	As of December 31, 2018	As of December 31, 2017
U.S. Stocks	10%-50%	31%	31%
International Stocks	5%-15%	6%	6%
Non-convertible Bonds	45%-75%	63%	63%
Convertible Bonds	0%-10%	0%	0%
		100%	100%

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The investment strategy with respect to the Company's pension plan assets is to preserve capital and to seek investment returns with a goal of fully funding the plan.

The expected rate of return was 7.6% for the year ending December 31, 2018 and 7.8% for the year ending December 31, 2017. These rates of return are an aggregation of expected returns within each asset category. The return with respect to each asset class considers both historical returns and the future expectations for such returns.

Target allocations of assets are determined with the objective of maximizing returns and minimizing volatility of net assets through adequate asset diversification and partial liability immunization. Adjustments are made to target allocations based on the Company's assessment of the impact of economic factors and market conditions.

The following table summarizes the Master Trust's financial instruments carried at fair value hierarchy levels. The fair values were estimated using the same methodology described in Note 4.

Description	As of December 31, 2018			Estimated Fair Value
	Level 1	Level 2	Level 3	
Common stocks	\$ -	\$ 580	\$ -	\$ 580
Fixed maturities				
U.S. Government	-	-	-	-
All other Government	-	4	-	4
States, Territories	-	3	-	3
Political Subdivisions	-	1	-	1
Special revenue	-	4	-	4
Industrial and Miscellaneous	-	1,297	-	1,297
Total Fixed maturities	-	1,309	-	1,309
Total	\$ -	\$ 1,889	\$ -	\$ 1,889

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Description	As of December 31, 2017			Estimated Fair Value
	Level 1	Level 2	Level 3	
	(In millions)			
Common stocks	\$ -	\$ 639	\$ -	\$ 639
Fixed maturities				
U.S. Government	144	-	-	144
All other Government	-	5	-	5
States, Territories	-	3	-	3
Political Subdivisions	-	1	-	1
Special revenue	-	6	-	6
Industrial and Miscellaneous	-	1,207	-	1,207
Total Fixed maturities	144	1,222	-	1,366
Total	\$ 144	\$ 1,861	\$ -	\$ 2,005

There were no financial instruments carried at fair value and classified as Level 3 for the years ending December 31, 2018 and 2017.

Defined Contribution Plans

The Company sponsors defined contribution plans. Home office employees are covered by an investment and profit sharing plan pension plans 401(k)/401(a). Employees can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 10% (if not highly paid) of non-matched contributions. In addition, the Company provides a profit sharing allocation in proportion to salary. For home office employees hired on or after January 1, 2018, the Company also makes a non-elective contribution to the Plan based on the age, years of service, and compensation of the participant. Field representatives are covered by a 401(k)/401(a) investment plan in which they can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 12% (if not highly paid) of non-matched contributions. The assets for both home office plans and the field representative's plan are held in a trust. Full time agents and general agents are covered by non-contributory plans. The Company contributed \$31 million to these plans in 2018 and \$29 million in 2017. The Company funds these plans and reflects the funded amounts as a liability.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES

Consolidated Federal Income Tax Return

The Company's federal income tax return is consolidated with the following entities:

- Guardian Insurance & Annuity Company, Inc. and its subsidiaries,
- Park Avenue Life Insurance Company,
- Sentinel American Life Insurance Company,
- Family Service Life Insurance Company,
- Managed Dental Care of California,
- Managed Dental Guard of Texas,
- Managed Dental Guard of New Jersey,
- Innovative Underwriters Inc.,
- Berkshire Life Insurance Company of America
- First Commonwealth, Inc. and its subsidiaries
- Reed Group Ltd,
- GIS Canada Holdings Corp,
- Guardian Abbey LLC,
- STX Healthcare Management Services, Inc.,
- Vital Smiles, Inc.

The Company files a consolidated federal income tax return as parent, with its subsidiaries. The Company has a written agreement, approved by the Company's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net capital losses, which it may incur, or to recoup its net operating or capital losses carried forward as an offset to future net income or capital gains subject to federal income taxes.

The Internal Revenue Code limits the amount of non-life insurance losses that may offset life insurance company taxable income. The consolidated income tax liability is allocated among the members of the group pursuant to a tax allocation agreement. In accordance with the tax allocation agreement, each qualifying member of the group computes its tax provision and liability on a separate return basis, but may, where applicable, recognize benefits of net operating losses and capital losses utilized in the consolidated group. Subsidiary tax liabilities/benefits are settled subsequent to the filing of the federal income tax return.

The Company does not anticipate any significant changes to its tax contingencies within the next 12 months.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes.

The Tax Cuts and Jobs Act ("the Act") was enacted into law on December 22, 2017. Effective January 1, 2018, the Act reduces the corporate tax rate to 21%. The Act also included several provisions that impact life insurance companies, including the elimination of the net operating loss carryback and changing the calculation of life insurance tax reserves. As a result, the Company performed a review of its grouping of temporary differences and modified its grouping methodology for advanced premium in the admissibility calculation. The net surplus impact primarily as a result of the Act was \$140 million reduction in unassigned surplus.

The Company included reasonable estimates for certain effects of the Act and recorded provisional amounts as of December 31, 2017. The Company recorded provisional amounts for tax reserves which resulted in an increase in both deferred tax assets and deferred tax liabilities of \$142 million. The Company also recorded a provisional amount of \$28 million for the amount of deferred tax assets expected to be realized following the balance sheet date as part of 11 (b) of the admissibility calculation.

As of December 31, 2018, the Company completed the evaluation of the impact to tax reserves and recorded additional \$10 million to gross DTA and gross DTL. The Company also completed the evaluation of the amount of deferred tax assets expected to be realized following the balance sheet date as part of 11 (b) of the admissibility calculation. As a result, the Company admitted \$121 million gross DTA under 11 (b) as of December 31, 2018. Changes to these amounts are recognized as a change in accounting estimate.

The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

	December 31, 2018		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 1,451	\$ 61	\$ 1,512
Statutory valuation allowance adjustments	-	-	-
Adjusted Gross Deferred Tax Assets	<u>1,451</u>	<u>61</u>	<u>1,512</u>
Deferred Tax Assets Nonadmitted	-	-	-
Subtotal Net Admitted Deferred Tax Asset	<u>1,451</u>	<u>61</u>	<u>1,512</u>
Deferred Tax Liabilities	<u>766</u>	<u>96</u>	<u>862</u>
Net Admitted Deferred Tax Asset	<u>\$ 685</u>	<u>\$ (35)</u>	<u>\$ 650</u>

	December 31, 2017		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 1,385	\$ 37	\$ 1,422
Statutory valuation allowance adjustments	-	-	-
Adjusted Gross Deferred Tax Assets	<u>1,385</u>	<u>37</u>	<u>1,422</u>
Deferred Tax Assets Nonadmitted	<u>23</u>	<u>-</u>	<u>23</u>
Subtotal Net Admitted Deferred Tax Asset	<u>1,362</u>	<u>37</u>	<u>1,399</u>
Deferred Tax Liabilities	<u>737</u>	<u>75</u>	<u>812</u>
Net Admitted Deferred Tax Asset	<u>\$ 625</u>	<u>\$ (38)</u>	<u>\$ 587</u>

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 66	\$ 24	\$ 90
Statutory valuation allowance adjustments	-	-	-
Adjusted Gross Deferred Tax Assets	<u>66</u>	<u>24</u>	<u>90</u>
Deferred Tax Assets Nonadmitted	<u>(23)</u>	<u>-</u>	<u>(23)</u>
Subtotal Net Admitted Deferred Tax Asset	<u>89</u>	<u>24</u>	<u>113</u>
Deferred Tax Liabilities	<u>29</u>	<u>21</u>	<u>50</u>
Net Admitted Deferred Tax Asset	<u>\$ 60</u>	<u>\$ 3</u>	<u>\$ 63</u>

At December 31, 2017, gross DTAs and DTLs were reduced by \$947 million and \$541 million, respectively due to the Act.

A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company's management has concluded that the deferred income tax assets are more likely than not to be realized. Therefore, no valuation allowance has been provided.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

Admission calculation components SSAP No. 101 (Paragraph 11)

The Company follows the guidance in Statement of Statutory Accounting Principles No. 101 - Income Taxes, A Replacement of SSAP No. 10R and SSAP No.10 ("SSAP 101"). SSAP 101 included a similar calculation for limitation of gross deferred tax assets as SSAP 10R for insurers that maintain a minimum of 300% of their authorized control level RBC computed without net deferred tax assets. The Company exceeded the 300% minimum RBC requirement at December 31, 2018 and 2017.

	December 31, 2018		
	Ordinary	Capital	Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks.*	\$ -	\$ 39	\$ 39
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2a, above) after application of the threshold limitation. (The Lesser of 2b.i. and 2b.ii. below)	672	-	672
The lesser of:			
i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	672	-	672
ii. Adjusted gross deferred tax assets allowed per limitation threshold.	N/A	N/A	977
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities.	779	22	801
Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.)	<u>\$ 1,451</u>	<u>\$ 61</u>	<u>\$ 1,512</u>
	December 31, 2017		
	Ordinary	Capital	Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks.	\$ -	\$ 37	\$ 37
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2a, above) after application of the threshold limitation. (The Lesser of 2b.i. and 2b.ii. below)	550	-	550
The lesser of:			
i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	550	-	550
ii. Adjusted gross deferred tax assets allowed per limitation threshold.	N/A	N/A	914
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities.	812	-	812
Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.)	<u>\$ 1,362</u>	<u>\$ 37</u>	<u>\$ 1,399</u>
	Change		
	Ordinary	Capital	Total
a. Federal income taxes paid in prior years recoverable through loss carrybacks.	\$ -	\$ 2	\$ 2
b. Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2a, above) after application of the threshold limitation. (The Lesser of 2b.i. and 2b.ii. below)	122	-	122
The lesser of:			
i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	122	-	122
ii. Adjusted gross deferred tax assets allowed per limitation threshold.	N/A	N/A	63
c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities.	(33)	22	(11)
Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.)	<u>\$ 89</u>	<u>\$ 24</u>	<u>\$ 113</u>

*Due to the new tax law eliminating the net operating loss carryback, the Company can no longer admit its ordinary DTA under SSAP 101 Paragraph 11a.

	2018	2017
Ratio percentage used to determine recovery period and threshold limitation amount	950%	1050%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation	\$ 7,952	\$ 7,458

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

Impact of Tax Planning Strategies

	December 31, 2018	
	Ordinary	Capital
1. Adjusted Gross DTAs amount	\$ 1,451	61
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	2.4%
3. Net Admitted Adjusted Gross DTAs amount	1,451	61
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	2.4%

	December 31, 2017	
	Ordinary	Capital
1. Adjusted Gross DTAs amount	\$ 1,385	37
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	2.5%
3. Net Admitted Adjusted Gross DTAs amount	1,362	37
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	6.1%

	Change	
	Ordinary	Capital
1. Adjusted Gross DTAs amount	66	24
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	-0.1%
3. Net Admitted Adjusted Gross DTAs amount from	89	24
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	-3.7%

Does the Company's tax-planning strategies include the use of reinsurance? Yes _____ No X

All DTL were recognized as of December 31, 2018 and December 31, 2017

Current income taxes incurred consisted of the following major components:

Description	December 31, 2018	December 31, 2017	Change
(In millions)			
Federal income tax expense on operating income	\$ 62	\$ 97	\$ (35)
Prior year overaccrual	(114)	(32)	(82)
Contingent tax	-	-	-
Current Federal operations income tax expense/(benefit)	\$ (52)	\$ 65	\$ (117)
Federal income tax expense/(benefit) on capital gains/(losses)	\$ (79)	\$ 141	\$ (220)
Prior year underaccrual	28	11	17
Current Federal capital gain income tax expense/(benefit)	\$ (51)	\$ 152	\$ (203)
Federal and foreign income taxes incurred	\$ (103)	\$ 217	\$ (320)

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
DTAs Resulting from Book/Income Tax Differences In:		(In millions)	
Ordinary:			
Reserves	\$ 611	\$ 582	\$ 29
Policy acquisition costs	280	258	22
Dividend provision	200	180	20
Liabilities for employees and agents	99	100	(1)
Non admitted assets	219	222	(3)
Contract liabilities and unpaid claims	1	1	-
Leasehold improvement	9	12	(3)
Other	32	30	2
Gross ordinary DTA - (admitted and nonadmitted)	<u>\$ 1,451</u>	<u>\$ 1,385</u>	<u>\$ 66</u>
Statutory valuation allowance adjustment - ordinary	-	-	-
Total ordinary DTA - (nonadmitted)	<u>-</u>	<u>23</u>	<u>(23)</u>
Admitted ordinary DTA	1,451	1,362	89
Capital:			
Impaired securities	57	32	25
Other	4	5	(1)
Gross capital DTA - (admitted and nonadmitted)	<u>61</u>	<u>37</u>	<u>24</u>
Total capital DTA - (nonadmitted)	<u>-</u>	<u>-</u>	<u>-</u>
Admitted capital DTA	<u>61</u>	<u>37</u>	<u>24</u>
Total admitted DTA	<u>\$ 1,512</u>	<u>\$ 1,399</u>	<u>\$ 113</u>
DTLs Resulting from Book/Income Tax Differences In:			
Ordinary:			
Deferred and uncollected premiums	\$ 234	\$ 229	\$ 5
Advanced Premium	69	66	3
Reserve Transition Adjustment (8 Year)	133	142	(9)
Guaranteed dividend	130	120	10
Other invested assets	73	68	5
Pension	62	43	19
Reserves 10 Year spread	11	13	(2)
Other	54	56	(2)
Ordinary DTL	<u>\$ 766</u>	<u>\$ 737</u>	<u>\$ 29</u>
Capital:			
Unrealized capital gains	42	25	17
Deferred gain	54	49	5
Other	-	1	(1)
Capital DTL	<u>96</u>	<u>75</u>	<u>21</u>
Total DTL	<u>\$ 862</u>	<u>\$ 812</u>	<u>\$ 50</u>
Net admitted DTA/(DTL)	<u>\$ 650</u>	<u>\$ 587</u>	<u>\$ 63</u>

The Change in net deferred income taxes is comprised of the following:

Adjusted gross deferred tax assets	\$ 1,512	\$ 1,422	\$ 90
Total Deferred Tax Liabilities	<u>862</u>	<u>812</u>	<u>50</u>
Net deferred tax assets (liabilities)	<u>\$ 650</u>	<u>\$ 610</u>	<u>\$ 40</u>
Tax effect of net unrealized gains (losses)			9
Change in net deferred income tax			<u>\$ 49</u>

Changes in net deferred income tax, including changes attributable to changes in tax rates and changes in tax status, if any, shall be recognized as a separate component of gains and losses in unassigned funds (Surplus).

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant book to tax adjustments causing this difference were the following:

	<u>December 31, 2018</u>	<u>Effective Tax Rate</u>
	(In millions)	
Net gain from operations after dividends to policyholders and before Federal income tax @ 21%	\$ (179)	
Net realized capital gains (losses) @ 21%	223	
Provision calculated at statutory rate	44	21.00%
Tax effect of:		
Interest maintenance reserve	(48)	(22.91%)
Tax Exempt Interest	(7)	(3.34%)
Affiliated Dividends	(10)	(4.77%)
Affordable Care Act Excise Tax	9	4.30%
Tax Credit	(89)	(42.48%)
Capital Loss Carryback	(32)	(15.27%)
Return to Provision	(34)	(16.23%)
Realized Loss - GIS Investment	12	5.73%
Other	3	1.42%
Total statutory income tax expense/(benefit)	<u>\$ (152)</u>	<u>(72.55%)</u>
Federal income taxes incurred	(103)	(49.16%)
Change in net deferred income taxes	(49)	(23.39%)
Total statutory income tax expense/(benefit)	<u>\$ (152)</u>	<u>(72.55%)</u>

Operating Loss and Tax Credit Carryforwards

As of December 31, 2018, the Company does not have any net ordinary loss carryforwards, capital loss carryforwards or tax credit carryforwards.

The following are income taxes incurred in prior years that are available for recoupment in the event of future net losses:

<u>Year</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
	(In millions)		
2018	\$ -	\$ -	\$ -
2017	-	171	171
2016	-	152	152
Total	<u>\$ -</u>	<u>\$ 323</u>	<u>\$ 323</u>

As of December 31, 2018, the Company does not have any deposits admitted pursuant to the Internal Revenue Code Section 6603.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 9 – REINSURANCE CEDED

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding business to reinsurers under various modified coinsurance agreements, coinsurance agreements, and combinations thereof, and yearly renewable term agreements. These agreements provide for reinsurance of selected individual life and disability policies and group life and group health contracts. Under the terms of the modified coinsurance agreements, reserves related to the reinsured business and the corresponding assets are held by the Company. The Company retains the primary obligation to the policyholder for reinsured policies. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, the Company evaluates the financial condition of its reinsurers in order to minimize its exposure to losses from reinsurer insolvencies.

The effects of these ceding agreements on the components of gain from operations in the accompanying statutory basis statements of operations are as follows:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ (458)	\$ (463)
Commissions and expense allowances (other income)	118	121
Total revenues	<u>(340)</u>	<u>(342)</u>
Benefit payments to policyholders and beneficiaries	(365)	(350)
Net reductions to policy benefit reserves	(30)	(49)
Commissions and operating expenses	1	2
Total expenses	<u>(394)</u>	<u>(397)</u>
Net gain on operations from reinsurance ceded	\$ <u>54</u>	\$ <u>55</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 10 – REINSURANCE ASSUMED

The Company enters into various modified coinsurance agreements, coinsurance agreements, and combinations thereof and yearly renewable term agreements that provide reinsurance on life insurance, annuities, credit life, disability insurance, and credit accident and health business. Under the terms of the various reinsurance treaties, the Company assumed (net of retrocession) approximately \$2.9 billion face amount of life insurance at December 31, 2018 and \$3.3 billion at December 31, 2017. Under the terms of modified coinsurance agreements, reserves related to the reinsured business and the corresponding assets are held by the ceding company.

The Company entered into a coinsurance agreement with BLICOA an affiliated insurance company effective January 1, 2013. Under the agreement, the Company assumed 80% of the net individual disability insurance (IDI) originally ceded to BLICOA from the Company via the July 1, 2001 coinsurance treaty as well as 80% of the IDI and multi-life (ML) business written by BLICOA since the 2001 treaty. The reinsurance is on a funds withheld basis with supporting invested assets remaining in BLICOA.

Also, as part of the terms of the agreement, the Company can request that BLICOA pay an amount equal to the Annual Funds Withheld Increase to the Company. In 2018 the Company did not request that BLICOA pay an amount equal to the Annual Funds Withheld Increase it recorded in 2017. In 2017 the Company did not request that BLICOA pay an amount equal to the Annual Funds Withheld Increase it recorded in 2016.

The Company entered into one Individual Life Yearly Renewable Term reinsurance agreement with an affiliated insurance company GIAC, effective January 1, 2011. The agreement covers GIAC's current form Secondary Guarantee Universal Life and Survivorship Universal Life plans having policy effective dates of January 1, 2011 and later. Reinsurance under the agreement is assumed on an automatic 90% first dollar quota share basis.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 10 – REINSURANCE ASSUMED (CONTINUED)

The following tables outline the effects of these assumption agreements on the accompanying Statutory Basis Statements of Operations.

Reinsurance Assumed from Affiliates

	<u>2018</u>	<u>2017</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ 671	\$ 659
Reserve adjustments on reinsurance (other income)	29	22
Total revenues	<u>700</u>	<u>681</u>
Benefit payments to policyholders and beneficiaries	290	258
Net additions to policy benefit reserves	118	138
Commissions and operating expenses	237	225
Total expenses	<u>645</u>	<u>621</u>
Net gain on operations from reinsurance assumed	<u>\$ 55</u>	<u>\$ 60</u>

Reinsurance Assumed from Non-Affiliates

	<u>2018</u>	<u>2017</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ 2	\$ 3
Total revenues	<u>2</u>	<u>3</u>
Benefit payments to policyholders and beneficiaries	1	(1)
Net reductions to policy benefit reserves	-	(2)
Commissions and operating expenses	2	4
Total expenses	<u>3</u>	<u>1</u>
Net gain/(loss) on operations from reinsurance assumed	<u>\$ (1)</u>	<u>\$ 2</u>

Total Reinsurance Assumed

	<u>2018</u>	<u>2017</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ 673	\$ 662
Reserve adjustments on reinsurance (other income)	29	22
Total revenues	<u>702</u>	<u>684</u>
Benefit payments to policyholders and beneficiaries	291	257
Net additions to policy benefit reserves	118	136
Commissions and operating expenses	239	229
Total expenses	<u>648</u>	<u>622</u>
Net gain on operations from reinsurance assumed	<u>\$ 54</u>	<u>\$ 62</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS

In 2018 and 2017, the Company made the following capital contributions to its real estate joint ventures and affiliates which are an addition to Other invested assets in the Statutory Basis Balance Sheets:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Guardian Abbey, LLC	\$ 2	\$ 1
Airside Park, LLC	1	-
Chelsea Place Apts, LLC	15	-
Hanover Mark Center (1)	32	-
Total	<u>\$ 50</u>	<u>\$ 1</u>

(1) Capital contributions were made by transferring mortgage loan investments.

In 2018 and 2017, the Company made the following capital contributions to its subsidiaries:

	<u>2018</u>	<u>2017</u>
	(In millions)	
GIAC	\$ 50	\$ 50
GIS	-	112
FCW	-	58
Guardian Acquisition I, LLC	2	25
Total	<u>\$ 52</u>	<u>\$ 245</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

The capital contribution to GIS and Guardian Acquisition I, LLC are recorded as an addition to Other invested assets in the Statutory Basis Balance Sheets, while the capital contributions to GIAC and FCW are recorded as an addition to Common and preferred stocks in the Statutory Basis Balance Sheets.

Of the \$112 million contribution to GIS in 2017, \$90 million was made by transferring Access Professional Dental Care, LLC and Access Dental Services, LLC and its subsidiaries, previously wholly owned subsidiaries of FCW, and \$2 million was related to the transfer of real estate joint venture LLCs.

In 2018 and 2017, the Company received net returns of capital of \$3 million and \$60 million respectively from its real estate joint ventures. These distributions are a reduction to Other invested assets in the Statutory Basis Balance Sheets.

In 2018 and 2017, the Company also received returns of capital from its subsidiaries as follows:

	<u>2018</u>	<u>2017</u>
	(In millions)	
FCW	\$ -	\$ 113
GIS	54	-
Park Avenue Life Insurance Company	-	25
Total	<u>\$ 54</u>	<u>\$ 138</u>

The return of capital from GIS is recorded as a reduction to Other invested assets in the Statutory Basis Balance Sheets, while the returns of capital from FCW and Park Avenue Life Insurance Company are recorded as a reduction to Common and preferred stocks in the Statutory Basis Balance Sheets.

Of the \$113 million return of capital from FCW in 2017, \$90 million was a transfer of Access Professional Dental Care, LLC and Access Dental Services, LLC and its subsidiaries, wholly owned subsidiaries of FCW.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

In 2018 and 2017, the Company received the following dividends from its affiliates and subsidiaries which are recorded as Net investment income in the Statutory Basis Statements of Operations:

	<u>2018</u>	<u>2017</u>
	(In millions)	
BLICOA	\$ 2	\$ 3
Managed Dental Care of California (“MDC”)	5	5
Managed Dental Guard of Texas, Inc. (TX)	2	1
FCW	35	37
Innovative Underwriters, Inc.	-	1
	<u>\$ 44</u>	<u>\$ 47</u>

The Company has expense sharing agreements with its subsidiaries. During 2018 and 2017, the Company had net billings of \$ 295 million and \$278 million, respectively, under the expense sharing agreements. Amounts billed to subsidiaries are included in Commissions and operating expenses in the Statutory Basis Statements of Operations. The unpaid net receivable balance due from subsidiaries relevant to these agreements was \$28 million and \$31 million on December 31, 2018 and December 31, 2017, respectively, and are included in Other assets and Other liabilities in the Statutory Basis Balance Sheets.

Effective May 1, 2017, the Company (Lender) amended its revolving line of credit agreement with GIAC (Borrower) from \$350 million to \$750 million. The terms of the credit agreement state that future drawing, if any, (not at the time overdue) shall bear interest at a rate per annum equal to (a) the Prime Rate plus 1.00% if a Prime Rate Loan or (b) the Eurodollar Rate plus 1.00% if a Eurodollar Rate Loan. In the event any drawing on the line of credit becomes due, whether by acceleration or otherwise, it shall bear interest at a rate per annum equal to the Prime Rate plus 2.00%. Additionally, a commitment fee equal to 0.125% per annum of the amount of this line of credit shall be paid by Borrower to Lender, such amount to be paid in quarterly installments on the last day of each March, June, September and December or on the termination of this line of credit. For value received, the Borrower, promises to pay on the maturity date or dates determined by the Lender, the principal sum of \$750 million or the aggregate unpaid principal sum of all Loans which the Lender actually makes to the Borrower, whichever amount is less, together with interest in arrears payable on each Interest Due Date at a rate computed on the basis of a 360-day year for the actual number of days in each interest period. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender notifies the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIAC is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2018, and 2017 there were no outstanding drawings on the line of credit. Interest income and commitment income of \$1 million and \$3 million for the twelve months ended December 31, 2018 and 2017, respectively, are included in Net investment income in the Statutory Basis Statements of Operations.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

Effective January 3, 2017, the Company (Lender) has a revolving line of credit agreement with GIS (Borrower) for \$300 million. The terms of the credit agreement state that future drawing, if any, (not at the time overdue) shall bear interest at a rate per annum equal to (a) the Prime Rate plus 1.00% if a Prime Rate Loan or (b) the Eurodollar Rate plus 1.00% if a Eurodollar Rate Loan. In the event any drawing on the line of credit becomes due, whether by acceleration or otherwise, it shall bear interest at a rate per annum equal to the Prime Rate plus 2.00%. Additionally, a commitment fee equal to 0.125% per annum of the amount of this line of credit shall be paid by Borrower to Lender, such amount to be paid in monthly installments no later than the last day of each month or on the termination of this line of credit. For value received, the Borrower, promises to pay on the maturity date or dates determined by the Lender, the principal sum of \$300 million, or the aggregate unpaid principal sum of all Loans which the Lender actually makes to the Borrower, whichever amount is less, together with interest in arrears payable on each Interest Due Date at a rate computed on the basis of a 360-day year for the actual number of days in each interest period. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender notifies the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIS is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2018 and 2017, the amounts of drawings on the line of credit amounted to \$0 million and \$25 million respectively, and are included in Cash, cash equivalents and short-term investments in the Statutory Basis Balance Sheets. Interest income and commitment income of \$2 million and \$1 million as of December 31, 2018 and December 31, 2017 respectively, are included in Net investment income in the Statutory Basis Statements of Operations.

Related Party Commitments:

The Company provides financial guarantees on behalf of some of its subsidiaries and affiliates as listed below. Per the statutory accounting guidance SSAP 5R, a liability has not been recorded on the Company's Statutory Basis Balance Sheets for any of these guarantees.

The Company continues to provide MDC, a subsidiary, a written letter of financial support for \$5 million of which \$1.5 million was funded in prior years. This amount was recorded as an additional investment in MDC. The letter was necessary for regulatory purposes in order to guarantee additional capital infusion to its California dental subsidiary as needed. At this time, MDC is not expected to further draw on the remaining \$3.5 million as the subsidiary has \$5 million more capital than is required by California.

As of December 31, 2018, and 2017, the Company had no commitments to make capital contributions to its' subsidiaries.

Settlement of Intercompany Transactions:

In accordance with NAIC SAP, all transactions between related parties are required to have a written agreement that provides for a timely settlement of amounts owed, including a specific due date. Amounts over ninety days due are to be non-admitted along with any uncollected receivable from a related party that is not part of a written agreement. The Company has determined that written agreements are in place for all intercompany transactions and that these written agreements contain specific due dates. As of December 31, 2018, there was no intercompany receivable that was more than 90 days past due.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 12 – LIABILITY FOR UNPAID CLAIMS AND CLAIM RESERVES

Activity in the liability for unpaid accident and health claims and claim reserves is summarized as follows and is included in Reserves for policy benefits on the Statutory Basis Balance Sheets:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at January 1	\$ 3,957	\$ 3,788
Incurred related to:		
Current year	2,409	2,349
Prior years	(187)	(146)
Affiliated reinsurance	<u>82</u>	<u>87</u>
Total incurred	<u>2,304</u>	<u>2,290</u>
Paid related to:		
Current year	1,573	1,531
Prior years	377	354
Affiliated reinsurance	<u>246</u>	<u>236</u>
Total paid	<u>2,196</u>	<u>2,121</u>
Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at December 31	\$ <u>4,065</u>	\$ <u>3,957</u>

The affiliated reinsurance for the years ended December 31, 2018 and December 31, 2017 is primarily due to an intercompany reinsurance agreement between the Company and BLICOA effective January 1, 2013.

The amount of incurred claims related to prior years was a reduction \$187 million and \$146 million for the years ended December 31, 2018 and December 31, 2017, respectively, primarily due to favorable claim experience on the Company's long-term disability reserves, driven by favorable development of both the reported and unreported claim reserves.

Loss / Claim Adjustment Expenses:

The balance in the liability for unpaid accident and health claim adjustment expenses was \$94 million and \$84 million as of December 31, 2018 and December 31, 2017, respectively. The Company incurred \$58 million and paid \$48 million of claims adjustment expenses in 2018 of which \$15 million of the paid amount was attributable to insured or covered events of prior years. The Company did not increase or decrease the provision for insured events of prior years. Estimated anticipated salvage and subrogation related to the liability for unpaid claims / losses is not material and therefore does not reduce the liability.

The liability for unpaid accident and health claims and claim adjustment expenses represents the Company's best estimate with a margin; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant and result in increase in liabilities. As of December 31, 2018, and 2017, the Company had no significant changes in methodologies and assumptions used in calculating the liability. The Company updates its experience study annually for recent company claim experience used to set the liability for unpaid claims.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 13 – ASO PLANS

The net gain from operations from ASO uninsured plans and the uninsured portion of partially insured plans was as follows during the years ended December 31, 2018 and December 31, 2017:

	2018		
	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
		(In millions)	
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	\$ 3.0	\$ -	\$ 3.0
Total net other income or expenses (including interest paid to or received from plans)	1.0	-	1.0
Net gain from operations	2.0	-	2.0
Total claim payment volume	577	-	577

	2017		
	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
		(In millions)	
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	\$ 23.3	\$ -	\$ 23.3
Total net other income or expenses (including interest paid to or received from plans)	8.2	-	8.2
Net gain from operations	15.1	-	15.1
Total claim payment volume	519	-	519

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 14 – LEASES

New York Home Office Building:

In June 1998, the Company executed a 21-year lease for its New York home office facility. A portion of the property is subleased to tenants under lease terms expiring through 2019. The lease is classified as operating. Rental expense for the property was \$21 million for the year ended December 31, 2018 and \$21 million for the year ended December 31, 2017. Sublease income was \$9 million for the year ended December 31, 2018 and \$9 million for the year ended December 31, 2017.

On January 9, 2017, the Company exercised its purchase option on the building. If the terms contained in the purchase option agreement are met the Company will be required to pay the \$147 million purchase price to the seller on September 30, 2019. During 2017, the Company entered into an agreement to sell the building which is expected to close in late 2019 and is not expected to result in a loss.

The following is a schedule by year of the minimum rental payments due under the lease:

	(In millions)
Year ending December 31, 2019	\$ <u>16</u>
Total	\$ <u><u>16</u></u>

The minimum aggregate sublease income is as follows:

	(In millions)
Year ending December 31, 2019	\$ <u>10</u>
Total	\$ <u><u>10</u></u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 14 – LEASES (CONTINUED)

Other Leases:

The Company has additional lease agreements that are operating leases principally for the rental of real estate. Rental expense for these properties was \$24 million for year ended December 31, 2018 and \$22 million for the year ended December 31, 2017.

The Company's major office facility leases are primarily used for administrative and business support operations are as follows:

- On September 13, 2017, the Company signed a seventeen-year five month lease agreement for its New York home office facility. The Company expects to begin using the building in second quarter of 2019 as a replacement of the current New York home office facility. The Company is obligated to pay approximately \$15 million in annual base rent plus operating expenses and taxes beginning in February 2019.
- On March 8, 2017, the Company signed a fifteen-year lease agreement for its New Jersey home office facility. The Company began using the building in the first quarter of 2018 and is obligated to pay approximately \$3 million in annual base rent plus operating expenses and taxes.
- On August 11, 2016, the Company signed a ten-year lease agreement for its Spokane home office facility. The Company began using the building in March 2017 and is obligated to pay approximately \$1 million in annual base rent which includes operating expenses and taxes.
- On January 26, 2015 the Company signed a twenty-year lease agreement with GLICA Bethlehem, LLC. Under the terms of the lease agreement GLICA Bethlehem, LLC built an office building in Bethlehem, PA according to specifications provided by the Company. The Company began using the building in June 2016 and is obligated to pay approximately \$5 million in annual base rent plus operating expenses and taxes.

The following is a schedule by year of the minimum rental payments due under the lease:

	(In millions)
Year ending December 31,	
2019	37
2020	36
2021	35
2022	32
2023	31
Total	<u>\$ 171</u>

The minimum aggregate sublease income is as follows:

	(In millions)
Year ending December 31,	
2019	7
2020	7
2021	6
2022	5
2023	4
Total	<u>\$ 29</u>

The Company guarantees the leases for some of its agents and one of its downstream affiliates. The fair value of the guarantees as of December 31, 2018 is estimated to be \$1.0 million. The remaining lease obligations that are guaranteed as of December 31, 2018 is \$19.2 million.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 15 – COMMITMENTS

Commitments to fund real estate, private equities, mortgage loans, and private placements in the normal course of business totaled \$1,367 million and \$1,393 million as of December 31, 2018 and December 31, 2017, respectively.

NOTE 16 – LITIGATION

The Company is engaged in various litigations arising out of its business operations. Due to the uncertainties inherent in litigation, it is difficult to determine the ultimate loss the Company will experience in these litigations. However, the Company has established accruals where the amount of the loss is probable and the amount can be reasonably estimated. In the opinion of management, based on current information at December 31, 2018, any losses resulting from such litigations would not have a material adverse effect on the financial position of the Company.

NOTE 17 – LINES OF CREDIT

During 2018 the Company closed its unsecured credit lines with various lenders. The interest rate on these lines when they were open was calculated on a base rate such as the bank's Prime rate plus a spread which varies from 0 - 125bps depending on the bank, or LIBOR plus a spread which varies from 75 - 125bps depending on the bank. The Company did not use the lines of credit during 2018 or 2017 and had \$0 million outstanding liability at December 31, 2018 and December 31, 2017.

The Company became a member of the Federal Home Loan Bank of New York (“FHLBNY”) on February 13, 2018. Membership allows the Company access to the FHLBNY’s financial services, including the ability to obtain collateralized loans and to issue collateralized funding agreements. The Company’s strategy is to utilize these funds as a source to improve spread lending liquidity and as a source of backup liquidity. FHLBNY borrowings and funding agreements are currently collateralized by qualifying mortgage loans but can also be collateralized with qualifying corporate bonds or U.S. Treasury securities, the fair value of which must be maintained at certain specified levels relative to outstanding borrowings. FHLBNY membership requires the Company to own member stock in the amount of 12.5 bps of the Company’s assets which is remeasured annually based on the prior years December 31 balance. This capital is locked up for five years should the Company decide to end its membership. Borrowings require the purchase of activity-based stock in an amount equal to 4.5% of outstanding borrowings. All FHLBNY stock purchased by the Company is classified as restricted general account investments within “Common and preferred stocks,” and the carrying value of these investments was \$12 million as of December 31, 2018.

The Company’s capacity to borrow is limited to 5% of admitted assets which is the regulatory limit on the amount of collateral that a New York domiciled insurance company can pledge for a loan. As of December 31, 2018, that limit was approximately \$2,924 million.

As of December 31, 2018, the Company had pledged assets with a fair value of \$39 million supporting outstanding funding agreements totaling \$37 million, which are included in “Policyholder dividends payable and other contract liabilities.”

NOTE 18 – POLICYHOLDERS’ SURPLUS

There were no special contingency reserves included in policyholder’s surplus at December 31, 2018 or December 31, 2017. The Company holds other reserves totaling \$4 million at December 31, 2018 and \$46 million at December 31, 2017 as required by New York State law for aviation business and Arkansas permanent surplus requirements. Surplus at December 31, 2018 and December 31, 2017 is as follows:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Accumulated earnings	\$ 8,425	\$ 7,921
Unrealized loss - common stock	(250)	(298)
Asset valuation reserve	(879)	(829)
Nonadmitted asset values	(128)	(156)
Total unassigned surplus	<u>7,168</u>	<u>6,638</u>
State required segregated surplus	4	46
Surplus	<u>\$ 7,172</u>	<u>\$ 6,684</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 19 – FINANCIAL INFORMATION

The following reconciles the New York SAP net income and surplus of Guardian as reported to regulatory authorities to consolidated GAAP income and GAAP equity:

	<u>2018</u>	<u>2017</u>
	(In millions)	
Statutory net income	\$ 310	\$ 423
Adjustments to GAAP basis:		
Realized capital gains	252	328
Capitalization of deferred policy acquisition costs	159	64
Future policy benefits	(1,121)	(1,131)
Elimination of IMR amortization	(74)	(99)
Establishment of deferred federal income taxes	(63)	404
Service fees	1,157	1,131
Policyholder dividends	34	34
Elimination of interest on affiliate reinsurance	(138)	(146)
Other	<u>95</u>	<u>(101)</u>
Consolidated GAAP income	<u>\$ 611</u>	<u>\$ 907</u>

	<u>2018</u>	<u>2017</u>
	(In millions)	
Statutory surplus	\$ 7,172	\$ 6,684
Adjustments to GAAP basis:		
Capitalization of deferred policy acquisition costs	4,602	3,442
Deferred software costs	33	22
Future policy benefits	(8,304)	(7,835)
Elimination of IMR	301	531
Elimination of AVR	879	829
Establishment of additional deferred federal income taxes	(966)	(1,206)
Policyholder dividends	470	435
Notes payable	(2,313)	(1,977)
Unrealized gains on investments and GAAP adjustments of affiliates	<u>9,464</u>	<u>11,203</u>
Consolidated GAAP equity	<u>\$ 11,338</u>	<u>\$ 12,128</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 20 – SURPLUS NOTES

On October 6, 2009, the Company issued Surplus Notes (“2009 Notes”) with a principal balance of \$400 million, bearing interest at 7.375%, and a maturity date of September 30, 2039. Proceeds from the issuance of the 2009 Notes were \$392.4 million, net of discounts and fees. The 2009 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by The Bank of New York Mellon as fiscal agent. Interest on these 2009 Notes is scheduled to be paid semiannually on March 31 and September 30 of each year. The 2009 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2009 Notes are not part of the legal liabilities of the Company. The 2009 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2009 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2009 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2009 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 50 basis points. On December 28, 2017 and January 9, 2018, the Company redeemed 2009 Notes with a principal balance of \$166.9 million and a carrying value of \$165.7 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). The Company paid \$17 million in interest for the years ended December 31, 2018 and \$33 million in December 31, 2017, respectively.

On June 19, 2014 the Company issued Surplus Notes (“2014 Notes”) with a principal balance of \$450 million, bearing interest at 4.875%, and a maturity date of June 19, 2064. Proceeds from the issuance of the 2014 Notes were \$444.6 million, net of discounts and fees. The 2014 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by The Bank of New York Mellon as fiscal agent. Interest on these 2014 Notes is scheduled to be paid semiannually on June 19 and December 19 of each year. The 2014 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2014 Notes are not part of the legal liabilities of the Company. The 2014 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2014 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2014 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2014 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 25 basis points. The Company paid \$22 million in interest for the years ended December 31, 2018 and December 31, 2017, respectively.

On January 24, 2017, the Company issued a Surplus 2017 Notes (“2017 Notes”) with a principal balance of \$350 million, bearing interest at 4.850%, and a maturity date of January 24, 2077. Proceeds from the issuance were \$343.6 million, net of discounts and fees. On December 28, 2017 and January 9, 2018, the Company issued an additional amount of the 2017 Notes with a principal balance of \$229.3 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). All of the 2017 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and will be administered by The Bank of New York Mellon as fiscal agent. Interest on these 2017 Notes is scheduled to be paid semiannually on January 24 and July 24 of each year. The 2017 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2017 Notes are not part of the legal liabilities of the Company. The 2017 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2017 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2017 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2017 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 30 basis points. The Company paid \$28 million in interest for the year ended December 31, 2018 and \$8 million in December 31, 2017, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 20 – SURPLUS NOTES (CONTINUED)

The Company completed an exchange transaction in which it issued additional 2017 Notes in exchange for redeemed 2009 Notes. They were settled predominately on December 27, 2017 with a minimal amount settling on January 8, 2018. The 2009 Notes had a principal balance of \$166.9 million (\$165.7 million carrying value) and the additional 2017 Notes had a principal balance of \$229.3 million (\$170.5 million carrying value). Of the \$63.6 million discount at the time of the exchange, \$4.8 million pertaining to inducement for note holders to exchange their notes, was recorded as expense on the transaction date along with an increase to the carrying value of 2017 Notes. The remaining \$58.8 million will be charged to the Statutory Basis Statements of Operations over the life of the 2017 Notes.

NOTE 21 – UNCLAIMED PROPERTY

The Company holds reserves for potential liability totaling \$0 million at December 31, 2018 and \$7 million at December 31, 2017, respectively. The Company has recorded paid claims of \$0.2 million in 2018 and \$3 million in 2017.

NOTE 22 – AFFORDABLE CARE ACT FEE

The health insurance industry assessment mandated by the Patient Protection and Affordable Care Act of 2010 was levied on health insurers beginning in 2014 based on a ratio of an insurer's net health insurance premiums written for the previous calendar year compared to the total premiums written by U.S. health insurance industry for that year. The Company recorded a liability for the amount of its expected fee as of January 1, 2018 of \$42 million. The Company paid the actual fee amount of \$42 million to the U.S. Treasury in September 2018. The 2018 was based on \$2,106 million of dental and vision premiums written in 2017. The Company's Total Adjusted Capital on December 31, 2017 was \$8,044 million and the Authorized Control Level reported on its December 31, 2017 RBC was \$709 million. After adjusting for \$42 million recorded in special surplus that pertains to the 2018 fee the Company's Total Adjusted Capital was \$8,002 million and its RBC Authorized Control Level was \$709 million. An RBC action level would not have been triggered had the fee for 2018 been reported as of December 31, 2017.

The Consolidated Appropriations Act, 2016 imposed a moratorium on the health insurance industry assessment mandated by the Affordable Care Act for the 2019 calendar year. Therefore, no liability was established for the 2019 calendar year.

NOTE 23 – SUBSEQUENT EVENTS

The Company considers events occurring after the balance sheet date but prior to February 27, 2019, the issuance of the financial statements, to be subsequent events requiring disclosure. There were no subsequent events for the period ended December 31, 2018.

Guardian Life Insurance Company of America
Annual Statement for the Year Ended December 31, 2018
Schedule 1 - Selected Financial Data

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

		<u>2018 Annual Statement References</u>
Investment Income Earned		Exhibit of Net Investment Income
Government Bonds	\$ 49,983,105	
Bonds Exempt From US Tax		
Other Bonds (unaffiliated)	1,587,189,696	
Bonds of Affiliates		
Preferred Stocks (unaffiliated)		
Preferred Stocks of Affiliates		
Common Stocks (unaffiliated)	13,061,905	
Common Stocks of Affiliates	44,861,912	
Mortgages Loans	171,274,195	
Real Estate	64,366,284	
Contract Loans	261,514,891	
Cash/Short-term Investments	16,066,803	
Other Invested Assets	146,983,711	
Derivative Instruments	870,066	
Aggregate Write-Ins for Investment Income	<u>2,877,304</u>	
Gross Investment Income	<u>\$ 2,359,049,872</u>	
Real Estate Owned - Book Value less Encumbrances	<u>\$ 331,120,710</u>	Schedule A - Part 1
Mortgage Loans - Book Value:		
Farm Mortgages	\$ -	Schedule B - Part 1
Residential Mortgages	-	
Commercial Mortgages	<u>4,520,388,807</u>	
Total Mortgage Loans	<u>\$ 4,520,388,807</u>	
Mortgage Loans by Standing - Book Value:		
Good Standing	<u>4,520,388,807</u>	Schedule B, Part 1
Good Standing with Restructured Terms	<u>-</u>	Schedule B, Part 1
Interest overdue more than 90 days, not in foreclosure	<u>-</u>	Schedule B, Part 1
Foreclosure in Process	<u>-</u>	Schedule B, Part 1
Other Long Term Assets - Statement Value	2,668,255,046	Schedule BA, Part 1
Bonds and Stocks of Parents, Subsidiaries and Affiliates - Book Value		Schedule D - Summary by Country
Bonds	<u>39,361,489,909</u>	
Preferred Stocks	<u>-</u>	
Common Stocks	<u>1,818,094,454</u>	

Schedule 1 - Selected Financial Data - Continued

2018 Annual Statement

References

Bonds and Short Term Investments by Class & Maturity

Schedule D, Part 1A Sec 1

Bonds by Maturity - Statement Value

Due within one year or less	\$ 1,676,048,037
Over 1 year through 5 years	9,113,775,656
Over 5 years through 10 years	12,818,016,202
Over 10 years through 20 years	4,834,836,571
Over 20 years	<u>11,691,559,280</u>
Total by Maturity	<u>\$ 40,134,235,746</u>

Bonds by Class - Statement Value

Class 1	\$ 23,878,909,398
Class 2	14,403,476,718
Class 3	728,323,870
Class 4	962,412,857
Class 5	159,455,715
Class 6	<u>1,657,188</u>
Total by Class	<u>\$ 40,134,235,746</u>

Total Bonds Publicly Traded

27,540,600,959

Total Bonds Privately Placed

12,593,634,787

Preferred Stocks - Statement Value

-

Common Stocks - Market Value

1,818,094,454

Short Term Investments - Book Value

69,914,540

Options, Caps Floors, Collars, Swaps and Forwards

23,039,270

Futures Contracts

12,605,307

Cash on Deposit

(40,849,414)

Life Insurance In Force

Exhibit of Life Insurance

Industrial	-
Ordinary	<u>388,194,163</u>
Credit Life	-
Group Life	<u>3,177,711</u>

Amount of Accidental Death Insurance In Force Under

Ordinary Policies	<u>1,022,200</u>
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Exhibit of Life Insurance

Life Insurance Policies with Disability Provisions In Force

Exhibit of Life Insurance

Industrial	-
Ordinary	<u>209,003,854</u>
Credit Life	-
Group Life	<u>271,026,371</u>

Supplementary Contracts In Force

Exhibit of Number of Policies,
Contracts, Certificates, Income Payable,
Account Values In Force for Supplementary
Contracts, Annuities, A&H and Other Policies

Ordinary - Not Involving Life Contingencies

-

Amount on Deposit	<u>215,489,145</u>
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Income Payable	<u>71</u>
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Ordinary - Involving Life Contingencies

Income Payable	<u>450</u>
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Schedule 1 - Selected Financial Data - Continued

2018 Annual Statement
References

Group - Not Involving Life Contingencies	
Amount on Deposit	<u>38,048,437</u>
Income Payable	<u>-</u>
Group - Involving Life Contingencies	
Amount on Deposit	<u>-</u>
Income Payable	<u>-</u>
Annuities - Ordinary	
Immediate - Amount of Income Payable	<u>588,539</u>
Deferred - Fully Paid Account Balance	<u>63,035,345</u>
Deferred - Not Fully Paid - Account Balance	<u>131,935,557</u>
Annuities - Group	
Amount of Income Payable	<u>76,071</u>
Fully Paid Account Balance	<u>-</u>
Not Fully Paid - Account Balance	<u>-</u>
Accident and Health Insurance - Premiums In Force	
Ordinary	<u>-</u>
Group	<u>3,231,459,038</u>
Credit	<u>-</u>
Other	<u>529,960,367</u>
Deposit Funds and Dividend Accumulations	
Deposit Funds - Account Balance	<u>25,440,268</u>
Dividend Accumulations - Account Balance	<u>96,728,343</u>
Claim Payments 2018	
Group Accident and Health Year - Ended December 31, 2015	
2018	<u>1,564,470</u>
2017	<u>1,745,216</u>
2016	<u>1,769,074</u>
2015	<u>1,698,467</u>
2014	<u>1,601,114</u>
Prior	<u>645,911</u>
Other Accident & Health	
2018	<u>33,016</u>
2017	<u>36,067</u>
2016	<u>26,245</u>
2015	<u>27,351</u>
2014	<u>18,448</u>
Prior	<u>136,827</u>
Credit Accident & Health	
2018	<u>-</u>
2017	<u>-</u>
2016	<u>-</u>
2015	<u>-</u>
2014	<u>-</u>
Prior	<u>-</u>

Exhibit of Number of Policies,
Contracts, Certificates, Income Payable,
Account Values In Force for Supplementary
Contracts, Annuities, A&H and Other Policies

Exhibit of Number of Policies,
Contracts, Certificates, Income Payable,
Account Values In Force for Supplementary
Contracts, Annuities, A&H and Other Policies

Exhibit of Number of Policies,
Contracts, Certificates, Income Payable,
Account Values In Force for Supplementary
Contracts, Annuities, A&H and Other Policies

Schedule O, Part 1
Section A

Section B

Section C

Schedule 1 - Selected Financial Data - Continued

2018 Annual Statement
References

Other Coverages that use developmental methods to calculate

Claims Reserves:

Section D

2018	-
2017	-
2016	-
2015	-
2014	-
Prior	-

Other Coverages that use developmental methods to calculate

Claims Reserves:

Section E

2018	-
2017	-
2016	-
2015	-
2014	-
Prior	-

Other Coverages that use developmental methods to calculate

Claims Reserves:

Section F

2018	-
2017	-
2016	-
2015	-
2014	-
Prior	-

Other Coverages that use developmental methods to calculate

Claims Reserves:

Section G

2018	-
2017	-
2016	-
2015	-
2014	-
Prior	-

The Guardian Life Insurance Company of America
Investments of Reporting Entities
December 31, 2018

Section 2 Investment Risk Interrogatories

Answer the following interrogatories by stating the applicable U.S dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of the annual statement.
 \$58,487,911,818

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	GUARDIAN INVESTOR SERVICES	LLC	\$ 720,060,194	1.2%
2.02	GUARDIAN INS & ANNUITY CO.	STOCK	\$ 455,313,103	0.8%
2.03	FIRST COMMON WEALTH INS CO	STOCK	\$ 440,355,510	0.8%
2.04	ISHARES MSCI EAFE INDEX	STOCK	\$ 276,480,170	0.5%
2.05	GILEAD SCIENCES INC	BONDS/STOCK	\$ 259,858,614	0.4%
2.06	COMCAST CORP.	BONDS/STOCK	\$ 238,739,702	0.4%
2.07	MICROSOFT CORP	BONDS/STOCK	\$ 212,512,348	0.4%
2.08	SIMON PROPERTY GROUP	BONDS/STOCK	\$ 209,625,881	0.4%
2.09	JP MORGAN CHASE & CO	BONDS/STOCK	\$ 201,278,193	0.3%
2.10	SHELL INTERNATIONAL FIN	STOCK	\$ 194,594,315	0.3%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating:

	Bonds	Amount	% of Total Admitted Assets	Preferred Stocks	Amount	% of Total Admitted Assets
3.01	NAIC-1	\$ 23,878,909,398	40.8%	P/RP-1	\$ -	0.0%
3.02	NAIC-2	\$ 14,403,476,718	24.6%	P/RP-2	\$ -	0.0%
3.03	NAIC-3	\$ 728,323,870	1.2%	P/RP-3	\$ -	0.0%
3.04	NAIC-4	\$ 962,412,857	1.6%	P/RP-4	\$ -	0.0%
3.05	NAIC-5	\$ 159,455,715	0.3%	P/RP-5	\$ -	0.0%
3.06	NAIC-6	\$ 1,657,188	0.0%	P/RP-6	\$ -	0.0%

4. Assets held in foreign investments:

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

Yes [] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02	Total admitted assets held in foreign investments	\$ 7,088,499,557	12.1%
4.03	Foreign-currency-denominated investments	\$ 835,536,709	1.4%
4.04	Insurance liabilities denominated in that same foreign currency	\$ -	0.0%

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

	<u>1</u>	<u>2</u>
5.01 Countries rated NAIC-1	\$ 6,484,980,647	11.1%
5.02 Countries rated NAIC-2	\$ 314,314,305	0.5%
5.03 Countries rated NAIC-3 or below	\$ 289,204,604	0.5%

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

	<u>1</u>	<u>2</u>
Countries rated NAIC-1		
6.01 Country: UNITED KINGDOM	\$ 1,698,907,336	2.9%
6.02 Country: AUSTRALIA	\$ 1,329,414,920	2.3%
Countries rated NAIC-2:		
6.03 Country: MEXICO	\$ 314,314,305	0.5%
6.04 Country:	\$	0.0%
Countries rated NAIC-3 or below		
6.05 Country: TRINIDAD	\$ 22,401,279	0.0%
6.06 Country: BAHAMAS	\$ 22,000,000	0.0%

7. Aggregate unhedged foreign currency exposure: \$ - 0.0%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
8.01 Countries rated NAIC-1	\$	0.0%
8.02 Countries rated NAIC-2	\$	0.0%
8.03 Countries rated NAIC-3 or below	\$ -	0.0%

9. Largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
Countries rated NAIC-1:		
9.01 Country:	\$	0.0%
9.02 Country:	\$	0.0%
Countries rated NAIC-2:		
9.03 Country:	\$	0.0%
9.04 Country:	\$	0.0%
Countries rated NAIC-3 or below		
9.05 Country:	\$ -	0.0%
9.06 Country:	\$ -	0.0%

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

	Issuer	NAIC	3	4
10.01	SHELL INTERNATIONAL FIN	1	\$ 194,594,315	0.3%
10.02	SUMITOMO MITSUI FINL GRP	1	\$ 163,727,178	0.3%
10.03	AMERICAN MOVIL SA DE CV	1	\$ 143,006,467	0.2%
10.04	HSBC HOLDINGS PLC	1	\$ 111,619,917	0.2%
10.05	MITSUBISHI UFJ FIN GRP	1	\$ 104,501,193	0.2%
10.06	STATOILHYDRO ASA- SPON ADR	1	\$ 98,518,085	0.2%
10.07	COMMONWEALTH BANK AUST	1	\$ 77,918,286	0.1%
10.08	BHP BILLITON FIN USA	1	\$ 77,037,513	0.1%
10.09	SIEMENS FINANCIERINGSMAT	1	\$ 73,197,245	0.1%
10.10	CREDIT SUISSE GROUP	2	\$ 73,011,103	0.1%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11

11.02	Total admitted assets held in Canadian investments	\$	-	0.0%
11.03	Canadian-currency-denominated investments	\$	-	0.0%
11.04	Canadian-denominated insurance liabilities	\$	-	0.0%
11.05	Unhedged Canadian currency exposure	\$	-	0.0%

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

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions		
	Largest three investments with contractual sales restrictions:		
		\$	- 0.0%
12.03		\$	- 0.0%
12.04		\$	- 0.0%
12.05		\$	- 0.0%

13. Amounts and percentages of admitted assets held in the largest ten equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [] No [X]

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	1	2	3
	Name of Issuer		
13.02	GUARDIAN INVESTOR SERVICES	\$ 720,060,194	1.2%
13.03	GUARDIAN INS & ANNUITY CO.	\$ 455,313,103	0.8%
13.04	FIRST COMMON WEALTH INS CO	\$ 440,355,510	0.8%
13.05	ISHARES MSCI EAFE INDEX	\$ 276,480,170	0.5%
13.06	BERKSHIRE LIFE INSURANCE CO	\$ 192,658,737	0.3%
13.07	VICTORY MUTUAL FUNDS	\$ 70,329,573	0.1%
13.08	SPDR GOLD TRUST	\$ 54,316,605	0.1%
13.09	INVESCO DB	\$ 53,789,935	0.1%
13.10	SPDR TRUST SERIES 1	\$ 53,419,150	0.1%
13.11	PARK AVENUE LIFE INSURANCE COMPANY	\$ 50,430,486	0.1%

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

14.01. Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 14.01 is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities		
	Largest three investments held in nonaffiliated, privately placed equities:	\$ -	0.0%
14.03		\$ -	0.0%
14.04		\$ -	0.0%
14.05		\$ -	0.0%

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

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

Yes [X] No []

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02			
		\$ -	0.0%
15.03		\$ -	0.0%
15.04		\$ -	0.0%
15.05		\$ -	0.0%

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

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

Yes [] No [X]

If response to 16.01 is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	Type (Residential, Commercial, Agriculture)	2	3
16.02	COMMERCIAL	\$ 201,125,000	0.3%
16.03	COMMERCIAL	\$ 195,000,000	0.3%
16.04	COMMERCIAL	\$ 192,800,000	0.3%
16.05	COMMERCIAL	\$ 152,095,332	0.3%
16.06	COMMERCIAL	\$ 112,128,005	0.2%
16.07	COMMERCIAL	\$ 111,300,000	0.2%
16.08	COMMERCIAL	\$ 109,706,507	0.2%
16.09	COMMERCIAL	\$ 100,000,000	0.2%
16.10	COMMERCIAL	\$ 91,927,528	0.2%
16.11	COMMERCIAL	\$ 91,649,851	0.2%

Amount and percentages of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction Loans	\$ 65,006,714	0.1%
16.13	Mortgage loans over 90 days past due	\$ -	0.0%
16.14	Mortgage loans in the process of foreclosure	\$ -	0.0%
16.15	Mortgage loans foreclosed	\$ -	0.0%
16.16	Restructured mortgage loans	\$ -	0.0%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as

Loan-to-Value	Residential		Commercial		Agriculture	
	1	2	3	4	5	6
17.01 above 95%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
17.02 91% to 95%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
17.03 81% to 90%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
17.04 71% to 80%	\$ -	0.0%	\$ 7,652,966	0.1%	\$ -	0.0%
17.05 below 70%	\$ -	0.0%	\$ 4,512,735,841	7.7%	\$ -	0.0%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 18.01. is yes, responses are not required for the remainder of Interrogatory 18

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	1	2	3
18.02		\$	0.0%
18.03		\$	0.0%
18.04		\$	0.0%
18.05		\$	0.0%
18.06		\$	0.0%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans: 0 0.00%

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:			
Largest three investments held in mezzanine real	\$	-	0.0%
19.03	\$	-	0.0%
19.04	\$	-	0.0%
19.05	\$	-	0.0%

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		1st Qtr	At End of Each Quarter			
	1	2		2nd Quarter	3rd Quarter		
20.01 Securities lending (do not include assets held as collateral for such transactions)	\$	-	0.0%	\$	-	\$	-
20.02 Repurchase agreements	\$	-	0.0%	\$	-	\$	-
20.03 Reverse repurchase agreements	\$	-	0.0%	\$	-	\$	-
20.04 Dollar repurchase agreements	\$	-	0.0%	\$	-	\$	-
20.05 Dollar reverse repurchase agreements	\$	-	0.0%	\$	-	\$	-

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floor:

	Owned		Written			
	1	2	3	4		
21.01 Hedge	\$	-	0.0%	\$	-	0.0%
21.02 Income generation	\$	-	0.0%	\$	-	0.0%
21.03 Other	\$	-	0.0%	\$	-	0.0%

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

	At Year-end		At End of Each Quarter						
	1	2	1st Qtr	2nd Qtr	3rd Qtr				
22.01 Hedging	\$	15,072,443	0.0%	\$	21,502,305	\$	13,414,894	\$	13,754,039
22.02 Income generation	\$	-	0.0%	\$	-	\$	-	\$	-
22.03 Replications	\$	-	0.0%	\$	-	\$	-	\$	-
22.04 Other	\$	-	0.0%	\$	-	\$	-	\$	-

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for future contracts:

	At Year-end		At End of Each Quarter						
	1	2	1st Quarter	2nd Quarter	3rd Quarter				
23.01 Hedging	\$	12,884,600	0.0%	\$	12,660,280	\$	16,203,460	\$	18,460,520
23.02 Income generation	\$	-	0.0%	\$	-	\$	-	\$	-
23.03 Replications	\$	-	0.0%	\$	-	\$	-	\$	-
23.04 Other	\$	-	0.0%	\$	-	\$	-	\$	-

THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

As of December 31, 2018

Appendix A-001

Section 3. Summary Investment Schedule

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities	Total (Col. 3 + 4)	Percentage
				Lending Reinvested Collateral Amount		
1. Bonds:						
1.1 US Treasury Securities	1,813,560,142	3.415%	\$ 1,813,560,142	\$	1,813,560,142	3.417%
1.2 US Government agency and corporate obligations (excluding mortgage-backed securities):						
1.21 Issued by US Government Agencies	-	0.00%	-	-	-	0.00%
1.22 Issued by US Government-sponsored agencies	-	0.00%	-	-	-	0.00%
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	70,000,000	0.132%	70,000,000		70,000,000	0.132%
1.4 Securities issued by states, territories and possessions and political subdivisions in the US:						
1.41 States, territories and possessions general obligations	316,930,150	0.597%	316,930,150		316,930,150	0.597%
1.42 Political subdivisions of states, territories and possessions political subdivisions general obligations	250,801,064	0.472%	250,801,064		250,801,064	0.473%
1.43 Revenue and assessment obligations	1,502,071,619	2.828%	1,502,071,619.00		1,502,071,619	2.830%
1.44 Industrial development and similar obligations		0.00%			-	0.00%
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA	822,233	0.002%	822,233.00		822,233	0.002%
1.512 Issued or guaranteed by FNMA and FHLMC	718,027,338	1.352%	718,027,338.00		718,027,338	1.353%
1.513 All other	-	0.000%	-		-	0.000%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	314,069,825	0.591%	314,069,825		314,069,825	0.592%
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521		0.00%			-	0.00%
1.523 All other	3,609,007,694	6.795%	3,608,938,316		3,608,938,316	6.800%
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	23,311,935,143	43.895%	23,311,935,143		23,311,935,143	43.926%
2.2 Unaffiliated non-U.S. securities (including Canada)	7,445,284,851	14.019%	7,445,284,851		7,445,284,851	14.029%
2.3 Affiliated securities	9,049,182	0.017%	9,049,182		9,049,182	0.017%
3. Equity interests:						
3.1 Investments in mutual funds	441,880,682	0.832%	441,880,682		441,880,682	0.833%
3.2 Preferred stocks:						
3.21 Affiliated	-	0.000%	-		-	0.00%
3.22 Unaffiliated	-	0.00%	-		-	0.00%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.000%	-		-	0.000%
3.32 Unaffiliated	219,397,626	0.413%	219,397,626		219,397,626	0.413%
3.4 Other equity securities:						
3.41 Affiliated	1,156,816,159	2.178%	1,150,134,000		1,150,134,000	2.167%
3.42 Unaffiliated		0.000%			-	0.000%
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated	-	0.000%	-		-	0.000%
3.52 Unaffiliated	-	0.000%	-		-	0.000%
4. Mortgage loans:						
4.1 Construction and land development	-	0.000%	-		-	0.00%
4.2 Agricultural	-	0.000%	-		-	0.000%
4.3 Single family residential properties	-	0.000%	-		-	0.00%
4.4 Multifamily residential properties	-	0.000%	-		-	0.000%
4.5 Commercial loans	4,482,273,809	8.440%	4,482,273,809		4,482,273,809	8.446%
4.6 Mezzanine real estate loans	38,115,000	0.072%	38,115,000		38,115,000	0.072%
5. Real Estate Investments:						
5.1 Property occupied by company	3,440,085	0.006%	3,440,085		3,440,085	0.006%
5.2 Property held for production of income (includes \$26,142,802) of property acquired in satisfaction of debt)	-	0.000%	-		-	0.000%
5.3 Property held for sale (\$0 including property acquired in the satisfaction of debt)	327,680,624	0.617%	327,680,624		327,680,624	0.617%
6. Contract loans	3,636,057,584	6.846%	3,634,864,040		3,634,864,040	6.849%
7. Derivatives	36,668,080	0.069%	36,668,080		36,668,080	0.069%
8. Receivables for securities	4,906,049	0.009%	4,906,049		4,906,049	0.009%
9. Securities Lending (Line 10, Asset Page reinvested collateral)	-	0.000%	-		-	0.000%
10. Cash and short-term investments	731,896,387	1.378%	731,896,387		731,896,387	1.379%
11. Other invested assets	2,668,255,046	5.024%	2,637,749,307		2,637,749,307	4.970%
12. Total Invested Assets	\$ 53,108,946,373	100.00%	\$ 53,070,495,553		\$ 53,070,495,553	100.00%

* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual

The Guardian Life Insurance Company of America

Statutory Basis Balance Sheets

(In Millions)

	As of December 31,	
	2017	2016
Admitted Assets		
Bonds	\$ 38,125	\$ 35,243
Common and preferred stocks	1,531	1,522
Mortgage loans	4,001	3,472
Real estate	345	374
Policy loans	3,520	3,405
Other invested assets	2,299	2,054
Receivable for securities	80	27
Cash, cash equivalents and short-term investments	554	822
Total invested assets	<u>50,455</u>	<u>46,919</u>
Due and accrued investment income	430	384
Premiums deferred and uncollected	1,091	1,058
Current federal and foreign income tax recoverable and interest thereon	127	106
Net deferred tax asset	587	727
Reinsurance recoverable from affiliate	2,641	2,472
Other assets	238	218
Total admitted assets	<u>\$ 55,569</u>	<u>\$ 51,884</u>
Liabilities		
Reserves for policy benefits	\$ 41,778	\$ 39,369
Policyholder dividends payable and other contract liabilities	3,550	3,107
Interest maintenance reserve	531	464
Asset valuation reserve	829	810
Other liabilities	2,197	1,962
Total liabilities	<u>48,885</u>	<u>45,712</u>
Policyholders' surplus	5,487	5,327
Surplus notes	1,197	845
Total liabilities and policyholders' surplus	<u>\$ 55,569</u>	<u>\$ 51,884</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Statutory Basis Statements of Operations

(In Millions)

	For the Years Ended December 31,	
	2017	2016
Revenues		
Premiums, annuity considerations and fund deposits	\$ 8,112	\$ 7,768
Net investment income	2,106	2,052
Other income	441	421
Total revenues	<u>10,659</u>	<u>10,241</u>
Benefits and Expenses		
Benefit payments to policyholders and beneficiaries	4,449	4,293
Net increase to policy benefit reserves	2,409	2,330
Commissions and operating expenses	2,383	2,262
Total benefits and expenses	<u>9,241</u>	<u>8,885</u>
Gain from operations before policyholder dividends and taxes	1,418	1,356
Policyholder dividends	<u>(903)</u>	<u>(839)</u>
Gain from operations before taxes and realized capital losses	515	517
Income tax expense	<u>(65)</u>	<u>(141)</u>
Income from operations before net realized capital losses	450	376
Net realized capital losses	<u>(27)</u>	<u>(8)</u>
Net income	<u>\$ 423</u>	<u>\$ 368</u>

See notes to statutory basis financial statements

The Guardian Life Insurance Company of America

Statutory Basis Statements of Change in Policyholders' Surplus

(In Millions)

	For the Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
Beginning of year balance	\$ 6,172	\$ 6,090
Adjustments to surplus:		
Net income	423	368
Change in net unrealized capital gains (losses), net of tax	26	(111)
Change in reserve on account of change in valuation basis	-	(8)
Change in asset valuation reserve	(19)	(11)
Change in surplus note	352	-
Change in net deferred taxes	(391)	92
Change in non-admitted assets	233	(84)
Change in pension funded status	(110)	(159)
Other changes, net	<u>(2)</u>	<u>(5)</u>
Net adjustments to unassigned surplus	<u>512</u>	<u>82</u>
End of year balance	\$ <u>6,684</u>	\$ <u>6,172</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Statutory Basis Statements of Cash Flows

(In Millions)

	For the Years Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Premiums and other income received	\$ 8,097	\$ 7,756
Investment income	2,110	2,110
Other income	130	196
Benefits and loss related payments	(4,582)	(4,308)
Commissions, expenses and taxes paid	(2,431)	(2,290)
Dividends paid	(847)	(822)
Other, net	(12)	22
Net cash provided by operating activities	<u>2,465</u>	<u>2,664</u>
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Bonds	14,248	15,042
Common and preferred stocks	363	538
Mortgage loans	495	574
Real estate	107	81
Other investments	398	457
Proceeds from investments sold or matured	<u>15,611</u>	<u>16,692</u>
Cost of investments acquired:		
Bonds	16,841	18,451
Common and preferred stocks	316	464
Mortgage loans	1,033	664
Real estate	85	16
Other investments	751	517
Cost of investments acquired	<u>19,026</u>	<u>20,112</u>
Net increase in policy loans, net of repayments	115	68
Net cash used in investing activities	<u>(3,530)</u>	<u>(3,488)</u>
Cash from financing and miscellaneous activities:		
Cash provided:		
Surplus note	352	-
Net deposits on deposit-type contracts and other insurance liabilities	445	868
Net cash provided by financing and miscellaneous activities	<u>797</u>	<u>868</u>
Net (decrease) increase in cash, cash equivalents and short-term investments	(268)	44
Cash, cash equivalents and short-term investments, beginning of year	822	778
Cash, cash equivalents and short-term investments, end of year	\$ <u>554</u>	\$ <u>822</u>

See notes to statutory basis financial statements.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 1 – ORGANIZATION

The Guardian Life Insurance Company of America (“Guardian” or the “Company”) provides financial services to customers throughout the United States. The Company provides a full range of insurance, investment, securities brokerage and other financial products and services including individual life and disability insurance, group life and health insurance, annuities, pension and retirement related investments and administration and asset management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying statutory basis financial statements have been prepared on the basis of accounting practices prescribed or permitted by the New York State Department of Financial Services (the “Department”), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“GAAP”). Insurance companies domiciled in New York are required to prepare statutory basis financial statements in accordance with the National Association of Insurance Commissioners’ (“NAIC”) Accounting Practices and Procedures manual (“NAIC SAP”), subject to certain deviations prescribed or permitted by the Department.

The Department recognizes only statutory accounting practices prescribed or permitted by the state of New York for determining and reporting the financial condition and results of operations of an insurance company (“New York SAP”). The NAIC promulgates the NAIC SAP, which include accounting guidelines referred to as Statements of Statutory Accounting Principles (“SSAPs”). The Department adopted NAIC SAP with certain modifications, through the passage of Regulation 172, effective January 1, 2001, as amended.

A reconciliation of the Company’s Net Income and Surplus at December 31, 2017 and 2016 between NAIC SAP and practices prescribed by the State of New York is shown below:

	<u>2017</u>	<u>2016</u>
Statutory Net Income, New York basis	\$ 423	\$ 368
State Prescribed Practices:		
Deferred premiums asset impact (1)	7	7
Admission of unearned reinsurance premium asset (2)	<u>(5)</u>	<u>(5)</u>
Statutory Net Income, NAIC SAP basis	<u>\$ 425</u>	<u>\$ 370</u>

	<u>2017</u>	<u>2016</u>
Statutory Surplus, New York basis	\$ 6,684	\$ 6,172
State Prescribed Practices:		
Deferred premiums asset impact (1)	143	133
Admission of unearned reinsurance premium asset (2)	<u>(62)</u>	<u>(55)</u>
Statutory Surplus, NAIC SAP basis	<u>\$ 6,765</u>	<u>\$ 6,250</u>

1) Department Circular Letter No. 11

2) Department Regulation 172

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial statements prepared on a New York SAP basis vary from financial statements prepared in accordance with GAAP primarily because on a statutory basis: 1) costs related to acquiring business, principally commissions and certain policy issue expenses, are charged to income in the year incurred; 2) life insurance and annuity reserves are based on statutory mortality and interest requirements, without consideration of withdrawals and company experience; 3) life insurance enterprises are required to establish a formula-based asset valuation reserve (“AVR”) by a direct charge to surplus to offset potential investment losses; 4) realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the interest maintenance reserve (“IMR”) and amortized into investment income over the remaining life of the investment sold; 5) bonds are carried principally at amortized cost; 6) certain reinsurance transactions are accounted for as reinsurance for statutory purposes and as financing transactions under GAAP, and assets and liabilities are reported net of reinsurance for statutory purposes and gross of reinsurance for GAAP; 7) certain “non-admitted assets” (furniture and office equipment, leasehold improvements, capitalized internally developed non-operating system software, and prepaid pension costs) must be excluded under statutory reporting through a charge to surplus; 8) investments in common stock of the Company’s wholly-owned and majority owned subsidiaries are accounted for using the equity method, where earnings of such subsidiaries are recognized in surplus; only when dividends are distributed is income recognized; 9) gross deferred tax assets and changes in deferred tax assets (“DTAs”) and liabilities (“DTL’s”), except those relating to changes in unrealized gains and losses, are recognized as a separate component of surplus. Deferred tax assets not meeting certain criteria are non-admitted; 10) investments in Other invested assets, where the Company has a controlling financial interest, are accounted for using the equity method for statutory purposes and consolidated under GAAP; and 11) if in the aggregate, the Company has a net negative cash balance, it is reported as a negative asset for statutory purposes and recorded as a liability under GAAP. The effect on the financial statements of the Company from the differences between New York SAP and GAAP are material and disclosed in Note 19.

Use of Estimates:

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. As a provider of life insurance products, the Company’s operating results in any given period depend on estimates of policy reserves required to provide for future policyholder benefits. The development of policy reserves for insurance and investment contracts requires management to make estimates and assumptions regarding mortality, lapse, expense and investment experience. Such estimates are primarily based on historical experience and, in many cases, state insurance laws that require specific mortality, morbidity, and investment assumptions to be used by the Company and may preclude the use of lapse and expense assumptions. Actual future results could differ from these estimates. Management monitors actual experience, and where circumstances warrant, revises its assumptions and the related reserve estimates. The Company regularly invests in mortgage loans, mortgage-backed securities and other securities subject to prepayment and/or call risk. Significant changes in prevailing interest rates and/or geographic conditions may adversely affect the timing and amount of cash flows on such investments, as well as their related values. In addition, the amortization of market premium and accretion of market discount for mortgage-backed securities is based on historical experience and estimates of future payment experience underlying mortgage loans. Actual prepayment timing could differ from original estimates resulting in adjustments to asset values and amortization or accretion recorded in future periods.

Admitted Assets:

Assets are stated at “admitted asset” values, which are values required by or permitted to be reported to the Department in accordance with its rules and regulations. Certain assets designated as “non-admitted assets” (approximately \$156 million and \$389 million at December 31, 2017 and December 31, 2016, respectively), consisting principally of deferred tax assets, leasehold improvements, electronic data processing equipment and computer software, and prepaid pension costs are charged directly to unassigned surplus.

Investments:

See Note 3 and Note 4 regarding the accounting policy, reported statement value and estimated fair value of the Company’s investment in bonds, common and preferred stocks, mortgage loans, real estate and derivatives.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash, Cash Equivalents and Short-Term Investments:

Cash includes amounts on deposit with banks. Cash equivalents are stated at amortized cost and consist of investments having maturities of three months or less at time of purchase. Money Market Funds are included in cash equivalents are stated at the Net Asset Value which is equivalent to the fair value. Certain short-term investments, are stated at amortized cost and consist primarily of investments having maturities greater than three months from date of purchase, but less than one year to maturity. Fair values for such investments approximate carrying value, because of the relatively short period of time between their origination and expected maturity and collectability.

Policy Loans:

Policy loans are stated at unpaid principal balance. The carrying amount approximates fair value since loans on policies have no defined maturity date and reduce the amount payable at death or at surrender of the contract.

Other Invested Assets:

Other invested assets consist primarily of joint ventures, limited liability companies (LLCs), and other forms of partnerships. These investments are valued at the Company's share of equity in the partnerships' LLC or joint ventures' net assets. All distributions are recorded as income or return of capital based on information received from the partnerships. The change in equity is recorded as unrealized gains (losses) on the Company's books and is charged directly to surplus. Other invested assets also include investments in surplus notes which are carried at amortized cost.

Other Assets:

Other assets consist primarily of receivables from subsidiaries (see Note 11), receivables related to reinsurance ceded (see Note 9), amounts receivable relating to Administrative Services Only ("ASO") uninsured plans, premium tax offsets, and electronic data processing equipment.

Investment Reserves:

In compliance with statutory requirements, the Company maintains the AVR and the IMR. The AVR is intended to stabilize policyholders' surplus against market fluctuations in the value of equities and credit related declines in the value of bonds, mortgage loans and equity investments. Changes in the AVR are recorded directly to surplus. The IMR defers net after-tax realized capital gains (losses) which result from changes in the overall level of interest rates for fixed income investments and amortizes these net capital gains (losses) into income over the remaining stated life of the investments sold. The Company uses the group method of calculating the IMR.

Insurance Revenue and Expense Recognition:

Life premiums are recognized as income over the premium-paying period of the related policies. Annuity considerations are recognized as revenue when received. Health premiums are earned ratably over the terms of the related insurance and reinsurance contracts or policies. Expenses incurred in connection with acquiring new insurance business, including acquisition costs such as sales commissions, are charged to operations as incurred. Benefit payments to policyholders and beneficiaries include death benefits, disability benefits, matured endowments and surrender benefits and are charged to expense when incurred.

Reserves for Policy Benefits:

See Note 5 regarding the methods and assumptions used to establish the Company's reserves for future insurance policy benefits.

Other Liabilities:

Other liabilities consist primarily of general expenses due or accrued, liabilities for employees and agents, commissions payable, unearned investment income, amounts withheld or retained by the company as agent or trustee, miscellaneous reinsurance liabilities, assessments, and tax reserves liabilities.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes:

The provision for federal income taxes is based on income from operations currently taxable. Realized gains and losses are reported net of the applicable federal income taxes. Deferred federal income tax assets are admitted to the extent they can be realized within three years subject to a 15% limitation of capital and surplus with increases or decreases reflected as adjustments to surplus (See Note 8). The Company is required to establish a tax loss contingency if it is more likely than not that a tax position will not be sustained. The amount of the contingency reserve is management's best estimate of the amount of the original tax benefit that could be reversed upon audit, unless the best estimate is greater than 50% of the original tax benefit, in which case the reserve is equal to the entire tax benefit.

Dividends to Policyholders:

The liability for dividends to policyholders principally consists of dividends expected-to-be paid during the subsequent year and are determined by means of formulas that reflect the relative contribution of each group of policies to the results of operations. Policyholder dividends are approved annually by the Board of Directors, and a portion of the policyholder dividends approved annually are guaranteed by the Board of Directors.

Other Contract Liabilities

Other contract liabilities include liabilities for deposit type contracts such as funding agreements (see Note 5), claims in the course of settlement, and premiums received in advance.

Benefit Plans:

The Company has non-contributory defined benefit pension plans covering substantially all of the Company's employees. The benefits are based primarily on years of service and compensation. Assets of the pension plans are invested in a diversified portfolio that primarily consists of corporate bonds and common stocks. All assets are managed by the Company or its affiliates.

Reinsurance:

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk (see Note 9 for reinsurance ceded and Note 10 for reinsurance assumed). The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Net Investment Income and Capital Gains:

Net investment income includes interest and dividends received or accrued on investments. It also includes amortization of any purchase premium or discount using the interest method, adjusted retrospectively or prospectively for any change in estimated yield to maturity. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made. Net investment income is reduced by investment management expenses, interest expense on the Company's outstanding surplus note and real estate depreciation.

Realized investment gains and losses are reported in income based upon specific identification of securities sold. Realized losses include valuation adjustments for other-than-temporary declines in investments. Unrealized investment gains and losses on financial instruments carried at fair value represent changes in the reported fair value and are recorded directly to surplus.

Assessments:

Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. As of December 31, 2017 and December 31, 2016, the liability balance included in other liabilities was \$9 million and \$28 million, respectively for assessments. Some states permit member insurers to recover assessments through full or partial premium tax offsets. The related premium tax offsets included in other assets were \$21 million and \$17 million as of December 31, 2017 and December 31, 2016, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On March 1, 2017, the Commonwealth Court of Pennsylvania entered into an order of liquidation for Penn Treaty Network America Insurance Company, and its subsidiary American Network Insurance Company (“Penn Treaty”), providers of long-term care insurance. As a result of the liquidation, the Company used the most current cost estimate provided by the National Organization of Life and Health Guaranty Associations (NOLHGA) to determine the estimated fund assessments and premium tax offsets. As of December 31, 2017, the Company recognized a discounted assessment liability of \$8 million (undiscounted of \$8 million) offset by a discounted premium tax offset of \$16 million (undiscounted of \$19 million) using a discount rate of 3.5%. The assessment is included in other liabilities of \$9 million and in other assets of \$21 million stated above. The Company expects a majority of the assessments to be paid over the next 2 years and a majority of the premium tax offset to be realized over the next 7 years.

The below table provide additional information on the Penn Treaty fund assessment liability and premium tax offset recoverables:

<u>Name of the Insolvency</u>	<u>Liability</u>			<u>Recoverables</u>		
	<u>Number of Jurisdictions</u>	<u>Range of Years</u>	<u>Weighted average number of years</u>	<u>Number of Jurisdictions</u>	<u>Range of Years</u>	<u>Weighted average number of years</u>
Penn Treaty	50	1 - 3 years	2 years	40	1 - 20 years	7 years

Reclassifications:

Certain amounts in prior year’s presentation have been reclassified to conform to the current presentation. The reclassification had no effect on previously reported net income or surplus. The investment in surplus notes totaling \$204 million have been reclassified from the Bonds to Other Invested Assets on Statutory Basis Balance Sheet for December 31, 2016.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS

Investments are valued in accordance with methods prescribed by the Securities Valuation Office of the NAIC (“SVO”). The Company obtains the fair value of financial instruments held in its portfolio that are either carried at fair value on the face of the financial statements or disclosed in the notes to the financial statements at fair value, from a number of sources. These sources include published market quotes for active market exchange traded instruments, third party pricing vendors, investment banks which are lead market makers in certain markets, broker quotes and the use of internal valuation models that use market observable inputs when available and Company derived inputs when external inputs are not available or deemed to be inaccurate. Unrealized gains and losses on investments carried at fair value are recorded directly in unassigned surplus. The investment portfolio is reviewed for investments that may have experienced a decline in value considered to be other-than-temporary. The Company considers several factors in determining whether other-than-temporary declines exist: duration and extent to which the fair value of the security has been less than cost; financial condition of the issuer; the near term prospects for recovery of the fair value of a security; discounted estimated future cash flows; and the intent and ability of the Company to hold the security to allow for an anticipated recovery in value. Impairments that are considered other-than-temporary are included in net realized capital losses.

The Company’s investment portfolio includes securities with a 5* NAIC designation. There were two securities that have a 5* NAIC designation with an aggregated book adjusted carrying value and aggregate fair value of \$10 million as of December 31, 2017. There were two securities that have a 5* NAIC designation with a book adjusted carrying value and fair value of \$14 million as of December 31, 2016.

Valuation methods for the various types of investments held are as follows:

Bonds - Bonds are stated principally at amortized cost with bond premiums and discounts amortized using the scientific interest method. Those bonds which are rated 6 by the NAIC are reported at the lower of amortized cost or fair value. Mortgage-backed bonds are carried at amortized cost using the interest method considering anticipated prepayments at the date of purchase. Significant changes in future anticipated cash flows from the original purchase assumptions are accounted for using the retrospective and prospective adjustment method utilizing the Public Securities Association standard prepayment rates. There were fifty-six securities that were sold, redeemed or disposed of with an aggregate amount of \$29 million in investment income from prepayment penalties and acceleration fees as of December 31, 2017.

Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed securities were obtained from issuers or broker- dealers through information services or internal estimates and are consistent with current interest rates and the economic environment. There were forty-six securities that were sold, redeemed or disposed of with an aggregate amount of \$504 million and \$8 million in investment income from prepayment penalties as of December 31, 2017.

The Company changes from the retrospective method to the prospective method when an other than temporary impairment has been recorded on a structured loan-backed security.

Preferred stocks - Preferred stocks are carried at amortized cost if they have an NAIC SVO rating of 1 to 3 or the lower of book value or fair value based on the rating of 4 to 6.

Common stocks - Common stocks of unaffiliated companies are stated at fair value, which is based on quoted market price. For common stocks without quoted market prices, fair value is estimated using independent pricing services or internally developed pricing models. Investments in subsidiaries are included in common stocks and are valued at equity in the underlying net assets. Undistributed earnings or losses of subsidiaries and unrealized appreciation or depreciation on common stocks are reflected as unrealized capital gains and losses directly in Surplus.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Foreign Currency Translation - All of the Company's insurance operations are conducted in the United States of America on a U.S. dollar-denominated basis. The Company does make bond, equity and other investments that are denominated in foreign currencies or issued by entities doing business in other countries. Investments denominated in a foreign currency are translated to U.S. dollars at each reporting date using then-current market foreign exchange rates. Translation gains or losses relating to fluctuations in market exchange rates are reported as a change in unrealized capital gains and losses until the related investment security is sold or matures, at which time a realized capital gain or loss is reported. Transactions denominated in a foreign currency, such as receipt of foreign-denominated interest or dividends, are translated to U.S. dollars based on the actual exchange rate at the time of the transaction.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The amortized cost basis and estimated fair value of bonds and the cost basis and estimated fair value of preferred stock and common stocks at December 31, 2017 and December 31, 2016 is as follows:

	Amortized Cost/ Cost*	Gross Unrealized		Estimated Fair Value
		Gains	(Losses)	
(In millions)				
December 31, 2017				
U.S. Government	\$ 2,475	\$ 46	\$ (8)	\$ 2,513
All other Government States, Territories, and Possessions	65	-	-	65
U.S. Political Subdivisions	336	52	-	388
U.S. Special Revenue	262	30	-	292
Industrial and Miscellaneous	2,517	231	(9)	2,739
Hybrid	32,455	1,874	(140)	34,189
Affiliated Bonds	5	1	-	6
Total Bonds	10	-	-	10
	<u>\$ 38,125</u>	<u>\$ 2,234</u>	<u>\$ (157)</u>	<u>\$ 40,202</u>
Common stocks - unaffiliated	\$ 513	55	(32)	\$ 536
Investment in subsidiaries	1,316	18	(339)	995
Total Common Stocks	<u>1,829</u>	<u>\$ 73</u>	<u>\$ (371)</u>	<u>1,531</u>
Preferred Stocks - Perpetual	\$ -	-	-	-
Total Preferred Stocks	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Total Common and Preferred Stocks	<u>\$ 1,829</u>	<u>\$ 73</u>	<u>\$ (371)</u>	<u>\$ 1,531</u>
	Amortized Cost/ Cost*	Gross Unrealized		Estimated Fair Value
		Gains	(Losses)	
(In millions)				
December 31, 2016				
U.S. Government	\$ 1,602	\$ 5	\$ (31)	\$ 1,576
All other Government States, Territories and Possessions	37	-	-	37
U.S. Political Subdivisions	390	47	(5)	432
U.S. Special revenue	230	22	-	252
Industrial and Miscellaneous	2,274	179	(19)	2,434
Hybrid	30,662	1,313	(460)	31,515
Total Bonds	48	2	(1)	49
	<u>\$ 35,243</u>	<u>\$ 1,568</u>	<u>\$ (516)</u>	<u>\$ 36,296</u>
Common stocks - unaffiliated	\$ 445	34	(41)	\$ 438
Investment in subsidiaries	1,346	39	(341)	1,044
Total Common Stocks	<u>1,791</u>	<u>73</u>	<u>(382)</u>	<u>1,482</u>
Preferred Stocks - Perpetual	\$ 40	10	-	50
Total Preferred Stocks	<u>40</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>50</u>
Total Common and Preferred Stocks	<u>\$ 1,831</u>	<u>\$ 83</u>	<u>\$ (382)</u>	<u>\$ 1,532</u>

* Includes unrealized FX adjustments

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The Company invests in high quality securities that are diversified by asset class, issuer and industry. At December 31, 2017 approximately 6.5% of the portfolio is invested in securities issued or backed by the United States Government or its agencies. No other single issuer accounts for more than 1.5% of the portfolio at December 31, 2017.

The amortized cost and estimated fair value of debt securities at December 31, 2017 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

	<u>2017</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
	(In millions)	
Due in one year or less	\$ 461	\$ 468
Due after one year through five years	9,499	9,692
Due after five years through ten years	9,572	9,937
Due after ten years	12,846	14,072
Sinking fund bonds, mortgage backed securities and asset backed securities	<u>5,747</u>	<u>6,033</u>
Total	<u>\$ 38,125</u>	<u>\$ 40,202</u>

The net change in unrealized capital gains (losses) included in surplus for year ended December 31, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Changes in net unrealized capital gains (losses) attributable to:		
Bonds (NAIC 6 rated)	\$ 4	\$ (4)
Preferred Stocks (NAIC 4, 5 and 6 rated)	-	6
Common stocks unaffiliated	31	21
Common stocks affiliated	(21)	(54)
Foreign currency translation	59	(28)
Other	<u>(47)</u>	<u>(72)</u>
Total change in net unrealized capital gains (losses)	26	(131)
Tax (expense) benefit	-	20
Total change in net unrealized gains (losses), net of tax	<u>\$ 26</u>	<u>\$ (111)</u>

Proceeds from sales, maturities and paydowns of investments in bonds amounted to \$14,248 million and \$15,522 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of \$413 million and \$602 million and gross losses of \$147 million and \$202 million were realized on sales of bonds for the years ended December 31, 2017 and 2016, respectively. These amounts are pre-tax and pre-IMR.

Proceeds from sales, maturities and paydowns of investments in preferred stock amounted to \$69 million and \$153 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of \$28 million and \$4 million and gross losses of \$0 million and \$15 million were realized on sales of preferred stock for the years ended December 31, 2017 and 2016, respectively. These amounts are pre-tax.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Proceeds from sales, maturities and paydowns of investments in common stock amounted to \$294 million and \$560 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of \$22 million and \$19 million and gross losses of \$6 million and \$13 million were realized on sales of common stock for the years ended December 31, 2017 and 2016, respectively. These amounts are pre-tax.

During 2017 and 2016, there were no restructured loans.

During 2017 and 2016, the Company had non-cash transactions related to the exchange or conversion of bonds that it held as investments in the amount of \$2,236 million and \$806 million.

During 2017 and 2016, the Company had non-cash transactions related to the exchange or merger activity related to common stock that it held as investments in the amount of \$0 million and \$2 million.

During 2017 and 2016, the Company had no non-cash transactions related to the exchange or conversion of preferred stock that it held as investments.

Unrealized Losses:

The Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and December 31, 2016 are shown below:

<u>December 31, 2017</u> (In millions)	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government	\$ 967	\$ (6)	\$ 57	\$ (2)	\$ 1,024	\$ (8)
All other Government States, Territories and Possessions	15	-	-	-	15	-
U.S. Political Subdivisions	13	-	17	-	30	-
U.S. Special Revenue	-	-	-	-	-	-
Industrial and Miscellaneous	207	(2)	343	(7)	550	(9)
Hybrid	4,523	(54)	2,764	(86)	7,287	(140)
Total Bonds	\$ 5,725	\$ (62)	\$ 3,181	\$ (95)	\$ 8,906	\$ (157)
Common stocks - unaffiliated	8	(1)	119	(31)	127	(32)
Total temporarily impaired securities	\$ 5,733	\$ (63)	\$ 3,300	\$ (126)	\$ 9,033	\$ (189)

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

December 31, 2016 (In millions)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government	\$ 1,126	\$ (31)	\$ 4	\$ -	\$ 1,130	\$ (31)
All other Government States, Territories and Possessions	17	-	-	-	17	-
U.S. Political Subdivisions	122	(5)	4	-	126	(5)
U.S. Special Revenue	35	-	-	-	35	-
Industrial and Miscellaneous	678	(18)	8	(1)	686	(19)
Hybrid	10,177	(380)	985	(80)	11,162	(460)
Total Bonds	<u>1</u>	<u>-</u>	<u>21</u>	<u>(1)</u>	<u>22</u>	<u>(1)</u>
	\$ 12,156	\$ (434)	\$ 1,022	\$ (82)	\$ 13,178	\$ (516)
Common stocks - unaffiliated	150	(19)	62	(22)	212	(41)
Total temporarily impaired securities	<u>\$ 12,306</u>	<u>\$ (453)</u>	<u>\$ 1,084</u>	<u>\$ (104)</u>	<u>\$ 13,390</u>	<u>\$ (557)</u>

The Company's investment portfolio includes individual securities that are in an unrealized loss position and have not been recognized as other-than-temporary impairments. There were four hundred and sixty-four securities in an unrealized loss position for greater than 12 months with a book value of \$3,426 million and a fair value of \$3,300 as of December 31, 2017. There were six hundred and seventy two securities in an unrealized loss position for greater than 12 months with a book value of \$1,188 million and a fair value of \$1,084 million as of December 31, 2016.

In reaching the conclusion that these impairments are not other-than-temporary, management considered many factors including: duration and severity of impairment, discounted cash flow analysis, investment sector stability, creditworthiness, financial condition of issuer, and intent and ability to hold to allow for recovery in value.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Mortgage Loans:

Mortgage loans are valued at amortized cost. Valuation reserves are established for potential declines in the value of the mortgage loans. As of December 31, 2017 and December 31, 2016 there were no valuation reserves established for any of the Company's mortgage loans. Other-than-temporary impairments on loans are charged to net realized capital losses and are not adjusted for subsequent recoveries in value. There were no other-than-temporary impairments on mortgage loans for the years ended December 31, 2017 and 2016, respectively.

The Company's \$4,001 million and \$3,472 million of investments in mortgage loans on real estate on December 31, 2017 and December 31, 2016 consist of loans on commercial real estate properties. Of these amounts \$1,682 million and \$1,356 million were mortgage loans in which the Company was a participant at December 31, 2017 and December 31, 2016. The Company had \$0 million and \$30 million in co-lender loan exposure as of December 31, 2017 and December 31, 2016. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas (\$1,209 million or 30.24% and \$351 million or 8.76%) at December 31, 2017. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas (\$1,183 million or 34.07% and \$224 million or 6.45%) at December 31, 2016. The Company estimates the fair value of mortgage loans on real estate to be \$4,085 million and \$3,549 million at December 31, 2017 and December 31, 2016, respectively. Fair value was determined based upon the present value of the scheduled future cash flows of each loan based on the average term to maturity discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for a similar quality mortgage. The minimum and maximum range of lending rates on new mortgage loans were between 3.20% and 4.32% originated during 2017. The maximum percentage of any single mortgage loan to the value of the security originated in 2017 was 69.92% at origination date.

Management monitors its mortgage loan portfolio on an ongoing basis for events or circumstances that could indicate that it will not receive all of its contractually due principal and interest payments in accordance with the loan agreements. In May and November of each year, the entire portfolio is screened based on debt service coverage, loan to value ratio, delinquency over 90 days and if there are indications that balloon payments due at maturity will not be made to determine if any other than temporary impairments might need to be recorded.

Interest received on impaired loans that were previously modified in a troubled debt restructuring is either applied against the principal or reported as revenue according to management's judgment as to the collectability of principal. There were no mortgages with interest more than 180 days past due at December 31, 2017 or December 31, 2016, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The following table set forth the credit quality indicators as of December 31, 2017 and December 31, 2016, based upon the recorded investment gross of allowance for credit losses.

Mortgage Loans

	Debt Service Coverage Ratio - December 31, 2017							
	Greater than					Less than		Grand Total
	2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	1.0X		
Loan-to-Value Ratio								
0% - 49.99%	\$ 939	\$ 62	\$ 178	\$ 24	\$ 19	\$ -	\$ 1,222	
50% - 59.99%	798	263	181	120	21	-	1,383	
60% - 69.99%	715	-	276	103	52	4	1,150	
70% - 79.99%	140	18	-	38	47	3	246	
80% - 89.99%	-	-	-	-	-	-	-	
90% - 100%	-	-	-	-	-	-	-	
Greater than 100%	-	-	-	-	-	-	-	
Total	\$ 2,592	\$ 343	\$ 635	\$ 285	\$ 139	\$ 7	\$ 4,001	

Mortgage Loans

	Debt Service Coverage Ratio - December 31, 2016							
	Greater than					Less than		Grand Total
	2.0X	1.8X to 2.0X	1.5X to <1.8X	1.2X to <1.5X	1.0X to <1.2X	1.0X		
Loan-to-Value Ratio								
0% - 49.99%	\$ 670	\$ 215	\$ 131	\$ 57	\$ 37	\$ 2	\$ 1,112	
50% - 59.99%	559	138	238	64	3	-	1,002	
60% - 69.99%	471	18	218	245	55	5	1,012	
70% - 79.99%	73	37	16	72	93	8	299	
80% - 89.99%	-	22	7	-	-	-	29	
90% - 100%	18	-	-	-	-	-	18	
Greater than 100%	-	-	-	-	-	-	-	
Total	\$ 1,791	\$ 430	\$ 610	\$ 438	\$ 188	\$ 15	\$ 3,472	

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Real Estate:

Real estate investments are reported in the financial statements at cost, less any valuation adjustment, encumbrances and accumulated depreciation of buildings and other improvements using a straight line method over a 40 year period for the buildings and the estimated useful life of the improvements. An investment in real estate is considered impaired when the projected undiscounted net cash flow from the investment is less than depreciated cost. When the Company determines that an investment in real estate is impaired, a valuation adjustment is made to reduce the carrying value to estimated fair value, after encumbrances, based on appraisal of the property. The valuation adjustment is included in realized capital gains (losses).

Real estate was comprised of the following for the years ended December 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Investment real estate	\$ 341	\$ 361
Properties held for sale - Company Occupied	-	10
Properties occupied by the Company	<u>4</u>	<u>3</u>
Total real estate	<u>\$ 345</u>	<u>\$ 374</u>

The Company had accumulated depreciation totaling \$102 million and \$121 million at December 31, 2017 and December 31, 2016, respectively. The Company recorded depreciation expense of \$19 million for 2017 and \$19 million for 2016. There were two properties with carrying value of \$22 million, above their combined fair value of \$20 million at December 31, 2017. There were four properties with carrying value of \$24 million, above their combined fair value of \$20 million at December 31, 2016. There was one other-than-temporary impairment of \$4 million taken on real estate in 2017. There were no other-than-temporary impairment in 2016. The fair values were determined by a third party and internal appraisals. As of December 31, 2016 the Company had four home office properties held for sale with carrying value of \$10 million. These properties were sold in 2017 resulting in a gain of \$2 million.

Restricted Assets and Special Deposits:

The Company had admitted restricted assets of \$12 million and \$23 million at December 31, 2017 and 2016, respectively. Of these amounts, there were deposits with states as required by certain insurance laws of \$4 million in 2017 and \$4 million 2016 and pledged as collateral for futures trading of \$8 million and \$20 million in 2017 and 2016, respectively. These amounts are included in Bonds in the Statutory Basis Balance Sheets. Total admitted restricted assets were 0.02% and 0.05% of the Company's total admitted assets at December 31, 2017 and 2016, respectively. There were no non-admitted restricted assets in 2017 or 2016.

Investment in Subsidiaries:

Investment in affiliated limited liability subsidiaries are included in Other invested assets while investment in all other subsidiaries are included in Common stocks on the Statutory Basis Balance Sheets and totaled \$1,819 million and \$1,754 million at December 31, 2017 and December 31, 2016, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The Company's major subsidiaries are as follows:

Guardian Insurance and Annuity Company ("GIAC") is a stock life insurance company organized primarily for the sale of variable deferred annuities, fixed deferred and immediate annuity contracts, and variable life insurance policies. For variable products, contracts are sold by insurance agents who are licensed by Park Avenue Securities LLC ("PAS"), wholly-owned by GIAC, and are either registered representatives of PAS or of broker-dealer firms that have entered into sales agreements with GIAC. Effective September 1, 2016, GIAC sold its Group 401(k) in-force business to Ameritas Life Insurance Corp., a Nebraska corporation ("Buyer") and entered into an indemnity reinsurance agreement with the Buyer on a 100% modified coinsurance basis for the liabilities until the Buyer can obtain all of the required regulatory and contract holder approvals to novate the GIAC Group 401(k) in-force contracts through Assumption Reinsurance.

Berkshire Life Insurance Company of America ("BLICOA") is a stock life company whose primary business is the sale and administration of disability insurance business.

Park Avenue Life Insurance Company ("PALIC") primary business is the administration of life insurance business (principally term and universal life products). Although PALIC is licensed in 48 states and the District of Columbia, it does not currently write new business.

First Commonwealth, Inc. ("FCW") provides dental care coverage and/or arranges for dental care services to be provided to its subscribers primarily on a prepaid basis. It also provides Indemnity/Preferred Provider Organization ("PPO") dental coverage, and administrative claim services. Through its subsidiary, Premier, FCW also operates as a dental health care service plan under the California Geographic Managed Care Program ("GMC") and the Los Angeles Prepaid Health Plan ("LAPHP"), which are administered by the California Department of Health Services and were created by the State legislature to ensure access, quality of care, and cost-effectiveness for beneficiaries of the Medi-Cal Program. On January 29, 2016, FCW acquired 100% interest in Avesis Incorporated at a purchase price of \$262 million. The total assets acquired were \$317 million which includes \$268 million in goodwill and intangible assets and total liabilities acquired were \$55 million.

Guardian Investor Services ("GIS") is a wholly-owned non-insurance limited liability company that provides investment advisory services and related services to the mutual funds, variable investment trusts, private investment unit trust, institutional and other clients through Park Avenue Institutional Advisers ("PAIA"), wholly-owned subsidiary of GIS. GIS also provides absence management services to organizations and dental practice management services to dental clinics. GIS holds investments in real estate operating entities and joint ventures, residual interests in collateralized loan obligation securities and investments in early stage companies.

- During 2016, GIS received \$234 million of real estate operating entities and joint ventures from the Company. GIS also received a contribution of \$130 million from the Company which represents the common stock of Reed Group, Ltd., a Colorado corporation that provides absence management services.
- On August 24, 2016, GIS acquired 100% interest in STX Healthcare Management Service, Inc., a dental service organization, at a purchase price of \$79 million in cash. The total assets acquired were \$94 million which includes \$80 million in goodwill and intangible assets and total liabilities acquired were \$15 million.
- On December 17, 2015, GIS entered into a definitive agreement to sell its majority interest (as of December 31, 2015, GIS owns a 94.0% interest in RS) in RS to Victory Capital. The transaction closed on July 29, 2016.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Selected financial information for the Company's significant subsidiaries is highlighted below:

	<u>2017</u>		<u>2016</u>
	(In millions)		
GIAC (Statutory basis)			
Total assets	\$ 17,360	\$	16,783
Total liabilities	17,050		16,523
Net income (loss)	\$ 26	\$	(140)
BLICOA (Statutory basis)			
Total assets	\$ 3,718	\$	3,527
Total liabilities	3,529		3,325
Net income	\$ 11	\$	18
PALIC (Statutory basis)			
Total assets	\$ 236	\$	268
Total liabilities	195		204
Net income	\$ 5	\$	6
FCW (GAAP basis)			
Total assets	\$ 586	\$	701
Total liabilities	112		161
Net income	\$ 28	\$	25
GIS (GAAP basis)			
Total assets	\$ 1,962	\$	1,432
Total liabilities	1,129		712
Net income (loss)	\$ 2	\$	(3)

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Investment in Subsidiaries

The following table provides additional information on non-insurance subsidiaries.

December 31, 2017

Description of SCA Investment (Per SSAP No 97)	% of SCA Ownership	Gross Amount	Non- admitted Amount	Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing)	NAIC Response Received (yes/no)	NAIC Valuation (Amount)	NAIC Disallowed	Code
									Entity's Valuation Method, Resubmission Required (yes/no)	
(In millions)										
Managed Dental Care of California	100%	\$ 4	\$ -	\$ 4	12/30/2016	Sub-2	Y	\$ 5	no	I
First Commonwealth	100%	443	-	443	12/30/2016	Sub-2	Y	508	no	I
Innovative Underwriters	100%	6	6	-	-	Sub-2	n/a	-	n/a	I
Guardian Investors Services, LLC	100%	824	-	824	-	n/a	n/a	-	n/a	I
Guardian Acquisition I, LLC	100%	24	24	-	-	n/a	n/a	-	n/a	I
Aggregate Total		\$ 1,301	\$ 30	\$ 1,271				\$ 513		

December 31, 2016

Description of SCA Investment (Per SSAP No 97)	% of SCA Ownership	Gross Amount	Non- admitted Amount	Admitted Asset Amount	Date of Filing to NAIC	Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing)	NAIC Response Received (yes/no)	NAIC Valuation (Amount)	NAIC Disallowed	Code
									Entity's Valuation Method, Resubmission Required (yes/no)	
(In millions)										
Managed Dental Care of California	100%	\$ 5	\$ -	\$ 5	6/30/2016	Sub-2	Y	\$ 6	no	I
First Commonwealth	100%	508	-	508	12/30/2016	Sub-2	Y	420	no	I
Innovative Underwriters	100%	6	6	-	-	Sub-2	n/a	-	n/a	I
Guardian Investors Services, LLC	100%	710	-	710	-	n/a	n/a	-	n/a	I
Aggregate Total		\$ 1,229	\$ 6	\$ 1,223				\$ 426		

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

NET INVESTMENT INCOME

Net investment income, including accrual of discounts and amortization of premiums, arose from the following sources for the years ended December 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Bonds	\$ 1,611	\$ 1,545
Preferred stocks	-	7
Unaffiliated common stocks	24	9
Affiliated common stocks	47	12
Mortgage loans	166	169
Real estate	69	73
Policy loans	253	247
Cash and short-term investments	6	4
Other (mainly private equities)	<u>155</u>	<u>181</u>
Gross investment income	2,331	2,247
Less investment expenses	<u>(225)</u>	<u>(195)</u>
Net investment income	<u>\$ 2,106</u>	<u>\$ 2,052</u>

NET REALIZED CAPITAL (LOSSES) GAINS

Net realized capital losses were derived from the following sources for the years ended December 31, 2017 and December 31, 2016:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Bonds	\$ 255	\$ 401
Preferred stocks	28	(11)
Common stocks (unaffiliated & affiliated)	15	5
Mortgage loans	(7)	(2)
Real estate	12	29
Other invested assets	5	(8)
Derivatives and hedging losses gains	(18)	(46)
Other realized losses	<u>1</u>	<u>-</u>
Total net realized capital gains	291	368
Capital gains tax expense	(152)	(164)
Transfer to IMR (net of tax)	<u>(166)</u>	<u>(212)</u>
Net realized capital losses	<u>\$ (27)</u>	<u>\$ (8)</u>

Included in Other Invested Assets is \$15.5 million net losses related to the transfer of twenty real estate joint venture LLC's to GIS in 2016.

The net realized capital loss figure above includes other-than-temporary impairment losses of \$54 million and \$46 million for the years ended December 31, 2017 and December 31, 2016, respectively. Of the \$54 million for 2017, \$15 million relates to impairments that reduced surplus which consists of \$11 million in bonds and \$4 million in real estate. The remaining \$39 million relates to private equities. The \$46 million relates to private equities.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Derivative Financial Instruments:

The Company enters into derivative transactions in order to mitigate (“hedge”) certain risks pertaining to its assets, liabilities and surplus from fluctuations in interest rates, foreign currency exchange rates and market volatility. Derivatives are either exchange traded or contracted over-the-counter. The majority of the Company’s over-the-counter derivatives are bilateral contracts between the Company and a single counterparty. The Company’s remaining over-the-counter derivatives are cleared and settled through central clearing counterparties.

Derivatives that are designated as hedges for accounting purposes and meet the qualifications for hedge accounting are reported on a basis consistent with the asset or liability being hedged (i.e. at amortized cost). Derivatives that are used to mitigate risk but are not designated as hedges for accounting purposes or do not meet the qualifications for hedge accounting treatment are reported at fair value.

To qualify for hedge accounting the hedge relationship must be designated and formally documented at inception. This documentation details the risk management objective and strategy for the hedge, the derivative used in the hedge, the asset or liability being hedged, and the methodology for assessing hedge effectiveness. The hedge must also be “highly effective” with an assessment of its effectiveness performed both at inception and on an ongoing basis over the life of the hedge.

Derivative transactions expose the Company to the risk that the counterparty may not be able to fulfill its obligations under the terms set forth in the contract. The Company manages this counterparty risk by entering into transactions with counterparties that maintain a minimum credit rating, by performing ongoing review of a counterparties’ credit standing, by adhering to established limits for credit exposure to any single counterparty and requiring collateral posting subject to thresholds and minimum transfer amounts in accordance with counterparty agreements to support credit risk associated with counterparty exposures which further reduces the company’s exposure to default by the counterparty. The Company is required to establish a margin account for all of its futures contracts. All of the futures contracts that the Company has entered into are exchange traded. Margin payments are required for futures contract and contract gains or losses are settled daily in cash, therefore the futures contracts are carried at zero value on the Company’s balance sheets. The contract amount of futures contracts represents the extent of the Company’s involvement, but not future cash requirements, as open positions are typically closed out prior to the delivery date of the contract. The Company does not offset the statement values for derivatives executed with the same counterparty, even if a master netting arrangement is in place. The Company also does not offset the right to claim collateral against the obligation to return such collateral.

The Company has no embedded credit derivatives that expose it to the possibility of being required to make future payments. The Company also does not have any derivative contracts with financing premiums.

Hedging – Designated As Hedging Instruments

The Company designates and accounts for its foreign currency swaps as cash flow hedges and certain equity index futures, treasury futures and S&P equity option as fair value hedges.

Foreign currency swaps are used to mitigate the foreign exchange risk for investments for specifically identified private placement bonds denominated in foreign currencies over a period of up to 15 years. Foreign currency swaps obligate the Company and a counterparty to exchange the foreign currency denominated interest and principal payments receivable on foreign denominated bonds for U.S. dollar payments based on currency exchange rates specified at the inception of the transaction. Foreign exchange gains or losses on these contracts are reported as a change in unrealized gains or losses until the maturity or sale of the hedged foreign currency bond at which time a realized capital gain or loss is recognized.

Equity index futures are used to mitigate the change in value of the liability the Company has to participants in its deferred compensation plans that allocate their plan account balances to equity funds offered under the plan. Equity index futures obligate the Company to pay or to receive an amount based on a specified equity market index as of a future date applied to the notional amount of the contract. The change in the fair value of the futures contracts are recorded as income or expense which offsets the impact on gain from operation of the change in value of its deferred compensation liability. If the hedge is deemed to be ineffective for any period of time, the change in the fair value of the futures contracts for that time period is recorded in surplus as an unrealized gain or loss.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Treasury futures are used to mitigate the portion of the change in fair value related to a change in interest rates on specifically identified assets acquired by the Company and held in its general account to support the Funding Agreements (“FA”) and the specifically identified portion of a liability incurred by the Company pertaining to FA that are issued by the Company to back Medium Term Notes (“MTN”) issued by a special purpose entity.

The Company enters into short positions (sells) treasury futures contracts prior to the issuance of the FA-MTN in order to lock-in the interest rate component of the return of the designated assets at their date of acquisition. When the FA-MTN is issued the Company enters into long position (purchases) treasury futures contracts in order to mitigate the change in the fair value of the designated net liability due to the effects of interest rate changes. The change in the fair value of the futures contracts are recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in value of its FA liability.

Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

S&P equity options are used by the Company as a risk management strategy to reduce the projected dividend liability exposure on its Index Participation Feature (“IPF”) which is a rider on certain whole life contracts. The Company uses a combination of short positions (sell) and long positions (purchases) of over-the-counter European call options on the S&P 500 index with expiration of one year to mitigate the dividend liability exposure based on the future return on S&P 500 index for the annual period of the monthly segment being hedged between the guaranteed floor rate and the cap rate on the participating balances. The change in the fair value of the options contracts are recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in the amount of the dividend liability.

Hedging – Not Designated As Hedging Instruments

The Company enters into other derivative transactions that mitigate economic risks but are not designated as a hedge for accounting purposes or do not qualify for hedge accounting treatment. These derivative instruments are reported at fair value on the balance sheet as either other invested assets or other liabilities. Changes in the fair value of these instruments are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recorded.

Treasury futures are used to mitigate the key rate duration mismatch between the designated segment of the general account asset portfolio and the custom composite benchmarks for that segment designed to incorporate certain interest rate characteristics of the liabilities that those assets support. Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

Foreign currency futures are used to mitigate the foreign exchange risk of investments in foreign denominated bonds securities. Foreign currency futures are exchange traded and settled daily. Foreign currency futures obligate the Company to exchange a specified amount of foreign currency at a specified rate on a future date.

Equity index futures are used to mitigate market fluctuations of the Company’s portfolio of unaffiliated common stock and other mark to market assets and to minimize the volatility associated with certain liabilities. Equity index futures obligate the Company to pay or receive from a counterparty a cash amount based on a specified equity market index at a predefine price as of a future date applied to the notional amount of the contracts.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Foreign currency forwards are used to mitigate the foreign exchange risk for investments in foreign denominated bonds or foreign denominated equity investments. Foreign currency forwards obligate the Company and the counterparty to exchange U.S. dollars and another currency at a specified future date and at a specified price.

Credit default swaps index (“CDX”) are used to reduce the credit risk exposure on a specified portfolio of corporate bonds. The Company purchases CDX contracts in which it receives payments if there is a credit event on one or more of the specified securities contained in the index. These payments would be used to offset any credit losses recorded on portfolio of bonds being hedged.

The Company also entered into short positions (sells) treasury futures contracts in order to lock in the interest rate as of the date the hedge was entered into for a surplus note that was issued in January 2017.

Replications

The Company purchased treasury futures as part of a replication transaction used to manage interest rate exposure. Statutory accounting guidance requires a cash instrument (high quality bond) with the same par value as the notional amount of the derivative and at least the same duration as the treasury futures to be held by the Company in order to cover the change in value of the treasury futures. The combining of the treasury futures and the cash instrument creates the replication (synthetic bond). If the replicated asset and cash instrument are carried at amortized cost so is the derivative. Otherwise, the derivative is carried at fair value.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

The effects of the Company's use of derivative instruments on the Balance Sheets and Statements of Operations:

December 31, 2017	Notional Amount	Statement Value		Change in Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income	Gain/(loss) from Operations
		Assets	Liabilities				
				(in millions)			
<u>Derivatives designated as hedging instruments:</u>							
Foreign currency swaps	\$ 816	\$ 13	\$ -	\$ (63)	\$ -	\$ -	\$ -
Equity index futures	213	-	-	-	-	-	36
Treasury futures	88	-	-	-	(15)	-	-
S&P equity options	5	-	-	-	-	-	-
<u>Derivatives not designated as hedging instruments:</u>							
Treasury futures	45	-	-	1	(1)	-	-
Equity index futures	1	-	-	-	-	-	-
Credit default swap index	-	-	-	-	(1)	-	-
Total derivatives	<u>\$ 1,168</u>	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ (62)</u>	<u>\$ (17)</u>	<u>\$ -</u>	<u>\$ 36</u>

December 31, 2016	Notional Amount	Statement Value		Change in Unrealized Capital Gains (Losses)	Net Realized Capital Gains (Losses)	Net Investment Income	Gain/(loss) from Operations
		Assets	Liabilities				
				(in millions)			
<u>Derivatives designated as hedging instruments:</u>							
Foreign currency swaps	\$ 422	\$ 34	\$ -	\$ 24	\$ -	\$ -	\$ -
Equity index futures	-	-	-	-	-	-	20
Treasury futures	-	-	-	-	-	-	-
S&P equity options	1	-	-	-	-	-	-
<u>Derivatives not designated as hedging instruments:</u>							
Treasury futures	-	-	-	(1)	(41)	-	-
Foreign currency futures	-	-	-	-	-	-	-
Equity index futures	3	-	-	-	-	-	-
Foreign currency forwards	-	-	-	-	-	-	-
Credit default swap index	950	-	15	-	(4)	-	-
Total derivatives	<u>\$ 1,376</u>	<u>\$ 34</u>	<u>\$ 15</u>	<u>\$ 23</u>	<u>\$ (45)</u>	<u>\$ -</u>	<u>\$ 20</u>

Repurchase Agreements:

The Company periodically enters into repurchase agreements whereby securities will be resold at a specified date and price. There were no repurchase agreements as of December 31, 2017 and December 31, 2016, respectively.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 3 – INVESTMENTS (CONTINUED)

Reverse Repurchase Agreements:

The Company periodically enters into reverse repurchase arrangements whereby certain securities are loaned, primarily with major brokerage firms. The Company's policy requires a minimum of 95% of the fair value of the loaned securities as collateral, calculated on a daily basis, in the form of either cash or securities. Collateral assets received and related liabilities due counterparties are included in the Statutory Basis Balance Sheets as "Other Liabilities". There were no open reverse repurchase agreements on December 31, 2017 or December 31, 2016.

Securities Lending

There were no securities on loan at December 31, 2017 or December 31, 2016.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Statutory guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions based on internally developed data in the absence of observable market information. The guidance requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when determining the fair value of an asset or liability. The statement classifies all assets and liabilities carried or disclosed at fair value in one of the following three categories:

Level 1 – inputs are quoted market prices available in active markets for identical assets or liabilities on the reporting date. Assets included in this category include fixed maturity instruments.

Level 2 – inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable. These types of instruments include fixed maturity instruments (impaired bonds), unaffiliated common stock, and derivative instruments that are not actively traded.

Level 3 – inputs are unobservable where there is little or no market activity for the asset or liability and the Company makes estimates and assumptions based on internally derived information. Instruments held in this category include fixed maturity instruments (impaired bonds).

The estimated fair values presented below have been determined using available information and valuation methodologies. The estimated fair value for financial instruments held by the Company was determined by management after considering the following sources of information: published market quotes for active exchange traded instruments, third party pricing vendors, quotes from investment banks that are lead market makers in certain markets, independent broker quotations, or the use of internal valuation models that use market observable inputs when available and Company derived inputs when external inputs are not available or deemed to be inaccurate. Considerable judgment is applied in interpreting data to develop the estimates of fair value. Accordingly, such amounts are management's estimate of the value that would be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies from period to period based on available information and market conditions could have a material effect on the estimated fair values.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Bonds, preferred and common stocks:

Estimated fair values for bonds, other than private placement securities, preferred stock and common stock are valued based on quoted prices from active markets when available (Level 1).

When the Company cannot obtain a quoted market price directly it relies on values provided by a third party pricing vendor. This is the pricing source for the majority of the Company's marketable securities. Prices received from a third party vendor are generally considered to be Level 2.

Pricing vendors utilize pricing models developed for individual asset classes which incorporate available market data. These market inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data which include market research publications. The pricing vendor may obtain broker quotes for securities when sufficient information is not available to fully evaluate a security. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants.

Portfolio managers review the values assigned by the pricing vendor for reasonableness. In doing so, they compare the prices received from the pricing vendor to prices of similar securities, price ranges in that asset class or industry or prices from internally generated position reports. If there is a discrepancy with the price received from the vendor, the portfolio manager may communicate this difference to the pricing vendor and present the vendor with additional market data regarding that security in order to insure the pricing vendor has sufficient information needed to accurately price the security. The pricing vendor will then independently validate and evaluate that data and determine if a price change is warranted.

In the rare instance when a portfolio manager finds a difference in his or her assessment of fair value and the vendor price, after performing the preceding procedures, the portfolio manager may request replacement of the vendor price by a supportable value that is believed to be more representative of the security price. Any replacement of the vendor price is subject to an internal approval process.

The fair values of private placement bonds are determined by using an internal pricing model or for a small amount of securities, assigned individual broker prices. There were seventy-seven private placement bonds that were individually priced. These assigned individual prices are usually obtained from an external broker ("hand priced") and are considered to be Level 3.

The significant inputs used for the internal pricing model consist of (i) a broker supplied price matrix, (ii) treasury rates and (iii) credit ratings from certain nationally recognized securities rating organizations ("NRSRO") ("external ratings") or a credit rating assigned internally by the Company's Private Placement Investment Management Group ("internal ratings").

Private placement bonds with an applicable external credit rating of BB or above, for which the corresponding matrix price is used, are classified as Level 2. A private placement bond with an applicable external credit rating of below BB is classified as Level 3 due to the limited amount of market data available for these securities.

Bonds are carried at amortized cost unless they are rated 6 by the NAIC SVO in which case they are reported at the lower of amortized cost or fair value. There no bonds rated 6 by the NAIC SVO and carried at fair value on December 31, 2017 and December 31, 2016. Impaired bonds carried at fair value on December 31, 2017 and December 31, 2016 were \$7 million and \$2 million, respectively.

Preferred stock is carried at amortized cost if they have a NAIC SVO rating of 1, 2 or 3 and at lower or cost or fair value if the rating assigned is 4, 5 or 6. There were no preferred stocks carried at fair value on December 31, 2017 and December 31, 2016.

Unaffiliated common stocks are reported at fair value.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives:

Derivative instruments are valued through the use of quoted market prices for exchange-traded derivatives (Level 1), third party pricing model and a third party pricing service for over-the-counter (“OTC”) traded derivatives (Level 2) and by using internally developed estimates and assumptions when no quoted market price or third party vendor price is available (Level 3).

The third party pricing model used to determine fair value, when quoted market values are not available, is based on market standard valuation methodologies and inputs that are assumed to be consistent with what market participants would use when pricing the instruments. The significant inputs to the pricing models for most over-the-counter derivatives are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Significant observable inputs include: interest rates, foreign currency exchange rates, interest rate curves, credit curves and volatility.

The methodology used by the third party pricing service for derivative investments is the same as that described above under the bonds, preferred and common stocks section.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarize the Company's financial instruments carried at fair value by their fair value hierarchy levels for the period ending December 31, 2017 and December 31, 2016:

	December 31, 2017					
	Level 1	Level 2	Level 3	Total Fair Value	NAV	Carrying Amount
Assets	(In millions)					
Impaired Bonds	\$ -	\$ -	\$ 7	\$ 7	\$ -	\$ 7
Common Stock	-	457	-	457	79	536
Total Assets	<u>\$ -</u>	<u>\$ 457</u>	<u>\$ 7</u>	<u>\$ 464</u>	<u>\$ 79</u>	<u>\$ 543</u>
Liabilities						
Derivative instruments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2016					
	Level 1	Level 2	Level 3	Total Fair Value	NAV	Carrying Amount
Assets	(In millions)					
Impaired Bonds	\$ -	\$ 2	\$ -	\$ 2	\$ -	\$ 2
Common Stock	-	366	-	366	72	438
Total Assets	<u>\$ -</u>	<u>\$ 368</u>	<u>\$ -</u>	<u>\$ 368</u>	<u>\$ 72</u>	<u>\$ 440</u>
Liabilities						
Derivative instruments	\$ -	\$ 15	\$ -	\$ 15	\$ -	\$ 15
Total Liabilities	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ -</u>	<u>\$ 15</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes changes to the Company's financial instruments carried at fair value and classified as level 3 in the fair value hierarchy for the year ended December 31, 2017.

Level 3 Roll Forward (In Millions)	As of December 31, 2017		
	NAIC 6	Impaired	Total
	Bonds	Bonds	
Fair Value , beginning of period	\$ -	\$ -	\$ -
Total gains or (losses) (realized or unrealized):			-
Included in net income	-	-	-
Included in surplus	-	-	-
Purchases, sales, issuances, and settlements:			-
Purchases	-	-	-
Sales	-	-	-
Issuances	-	-	-
Settlements	-	-	-
Transfers into Level 3	-	7	7
Transfers out of Level 3	-	-	-
Fair value, end of period	\$ -	\$ 7	\$ 7

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2017, the Company transferred one security into Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

Level 3 Roll Forward (In Millions)	As of December 31, 2016		
	NAIC 6	Impaired	Total
	Bonds	Bonds	
Fair Value , beginning of period	\$ -	\$ 8	\$ 8
Total gains or (losses) (realized or unrealized):			-
Included in net income	-	-	-
Included in surplus	-	-	-
Purchases, sales, issuances, and settlements:			-
Purchases	-	-	-
Sales	-	(8)	(8)
Issuances	-	-	-
Settlements	-	-	-
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	-	-
Fair value, end of period	\$ -	\$ -	\$ -

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2016, the Company transferred no securities into and out of Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 5 – RESERVES FOR POLICY BENEFITS

Reserves for policy benefits represent the estimated net present value of future policy benefits, less future policy premiums, established using actuarial methods based on mortality and morbidity experience tables and valuation interest rates prescribed by the Department. Actual future experience will generally differ from assumptions used to determine these reserves.

Reserves for future policy benefits on life insurance issued in 1988 and later are calculated principally on the New Jersey Reserve Method or the Commissioners Reserve Valuation Method using the 1980 Commissioners' Standard Ordinary ("CSO") and the 2001 CSO mortality tables. Reserves on life policies issued before 1988 are calculated principally on the Net Level Premium Reserve Method using the American Experience, 1941, 1958 and 1980 CSO mortality tables. Annuity contract reserves are principally calculated using the 1983 Group Mortality table and the various Individual Annuity mortality tables. Assumed interest rates principally range from 2.5% to 5.5 % for direct business.

The reserves for Group Life Waiver and LTD reported claims are determined on a seriatim basis. Life waiver of premium reserves are determined primarily using the 1970 Inter-company Group Life Disability Table for claims incurred on or before December 31, 2008 and the 2005 Group Term Life Waiver Reserve Valuation Table for claims incurred on or after January 1, 2009. The interest rate is 4.0% for claims incurred on or before December 31, 2012 and 3.5% for claims incurred on or after January 1, 2013. Long-term disability reserves are determined using the 2012 Group Long-Term Disability Valuation Table for claims incurred on or after January 1, 2017 and Table 95a for claims incurred on or before December 31, 2016 for the first 24 months after disablement, and the 1987 Commissioners' Group Disability Table for greater than 24 months of disablement. The interest rates range from 2.75% to 5.0%, depending on the year of incurral. Short Term Disability (STD), Dental, and Medical claims incurred but not yet reported ("IBNR") reserves are estimated based on the Company's historical experience. Dental and Medical reserves include reasonable allowances for potential adverse deviation.

The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium paid beyond the date of death. The larger of legally computed reserves and cash surrender values on a policy-by-policy basis are held as liabilities. Plans, except for second-to-die plans, charge additional premiums for substandard lives based upon actual issue age. Second-to-die plans develop substandard reserves using the rated up age. Mean reserves are based on appropriate multiples of standard rates of mortality. As of December 31, 2017, the Company had \$14 billion of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of New York. The reserves to cover the above insurance totaled \$32 million. The Tabular Interest, the Tabular Less Actual Reserve Released and the Tabular Cost have been determined by formula. For the determination of Tabular Interest on funds not involving life for each valuation rate of interest, the tabular interest is calculated as the product of such valuation rate of interest times the average of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

At December 31, 2017 and December 31, 2016 the withdrawal characteristics of the Company's annuity reserves and deposit liabilities were as follows:

	As of December 31, 2017				
	(1) General Account	(2) Separate Account with Guarantees	(3) Separate Account Non Guaranteed	(4) Total	(4) % of Total
A. Subject to discretionary withdrawal:					
(1) With market value adjustment	\$ 10	\$ -	\$ -	\$ 10	0.5%
(2) At book value less current surrender charge of 5% or more	60	-	-	60	3.3%
(3) At fair value	-	-	-	-	-
(4) Total with adjustment or at fair value (Total of 1 through 3)	\$ 70	\$ -	\$ -	\$ 70	3.8%
(5) At book value without adjustment (with minimal or no charge or adjustment)	\$ 546	\$ -	\$ -	\$ 546	29.6%
B. Not subject to discretionary withdrawal	\$ 1,227	\$ -	\$ -	\$ 1,227	66.6%
C. Total (gross: direct + assumed)	\$ 1,843	\$ -	\$ -	\$ 1,843	100.0%
D. Reinsurance ceded	-	-	-	-	-
E. Total (net)* (C)- (D)	\$ 1,843	\$ -	\$ -	\$ 1,843	100.0%

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

	As of December 31, 2016				
	(1) General Account	(2) Separate Account with Guarantees	(3) Separate Account Non Guaranteed	(4) Total	(4) % of Total
A. Subject to discretionary withdrawal:					
(1) With market value adjustment	\$ 10	\$ -	\$ -	\$ 10	0.7%
(2) At book value less current surrender charge of 5% or more	63	-	-	63	4.3%
(3) At fair value	-	-	-	-	-
(4) Total with adjustment or at fair value (Total of 1 through 3)	\$ 73	\$ -	\$ -	\$ 73	5.0%
(5) At book value without adjustment (with minimal or no charge or adjustment)	\$ 548	\$ -	\$ -	\$ 548	37.4%
B. Not subject to discretionary withdrawal	\$ 846	\$ -	\$ -	\$ 846	57.7%
C. Total (gross: direct + assumed)	\$ 1,467	\$ -	\$ -	\$ 1,467	100.0%
D. Reinsurance ceded	-	-	-	-	-
E. Total (net)* (C)- (D)	\$ 1,467	\$ -	\$ -	\$ 1,467	100.0%

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

Note Programs

Funding agreements are investment contracts whose reserve liabilities are equal to the account value and are established by contract deposits, increased by interest credited and decreased by contract coupon payments and maturities. Contract holders do not have the right to terminate the contract prior to the contractually stated maturity date. Credited interest rates vary by contract and can be fixed or floating.

Under the note programs, the Company creates special purpose entities (“SPEs”), which are investment vehicles or trusts, for the purpose of issuing medium-term notes to investors. Proceeds from the sale of the medium-term notes issued by these SPEs are used to purchase funding agreements from the Company. The medium term notes are secured by the funding agreements with the note issuer granting a security interest in the funding agreement to the indenture trustee for the notes. The payment terms of any particular series of notes are matched by the payment terms of the funding agreement securing the series. The Company has a \$3.0 billion Global Medium-Term Note Program of which \$1.2 billion notes have been issued with \$1.2 billion remaining outstanding as of December 31, 2017. The \$1.2 billion and \$800 million is included in “Policyholder dividends payable and other contract liabilities” in the Statutory Basis Balance Sheets as of December 31, 2017 and December 31, 2016, respectively.

NOTE 6 – PREMIUM AND ANNUITY CONSIDERATIONS DEFERRED AND UNCOLLECTED

Gross deferred and uncollected life insurance premiums represent premiums due to be received from policy owners through the next policy anniversary date. Net deferred and uncollected life insurance premiums represent only the portion of gross premiums related to mortality charges and interest. Deferred and uncollected life insurance premiums at December 31, 2017 and December 31, 2016 were as follows:

Type	2017		2016	
	(In millions)		(In millions)	
	Gross	Net	Gross	Net
Ordinary new business	\$ 64	\$ 64	\$ 67	\$ 67
Ordinary renewal	674	581	656	569
Group life	175	351	168	341
Totals	\$ 913	\$ 996	\$ 891	\$ 977

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS

Defined Benefit Plans:

The Company sponsors non-contributory defined benefit pension plans covering all eligible employees. These include tax-qualified plans, as well as nonqualified plans that provide benefits to certain participants in excess of ERISA limits for qualified plans. The Company's policy is to fully fund the obligations of qualified plans in accordance with ERISA requirements.

In addition to pension benefits, the Company provides certain health care, dental and life insurance benefits ("postretirement benefits") for retired employees. Substantially all of the employees and representatives may become eligible for these benefits if they reach retirement age while working for the Company.

In accordance with NAIC SAP, the costs associated with these required benefits are expensed over the period that the participant provides services to the Company, including recognition of assets and liabilities based on the funded status of the related plans. Pension assets are then non-admitted and thereby excluded from surplus.

Effective January 1, 2013, the Company adopted Statement of Statutory Accounting Principle No. 92, Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14 ("SSAP 92") and Statement of Statutory Accounting Principle No. 102, Accounting for Pensions, A Replacement of SSAP No. 89 ("SSAP 102"). These new statutory accounting standards require that estimates of the projected benefit obligations and accumulated benefit obligations include future benefit obligations due to non-vested participants. They also require that the Company's surplus as reported in the statements of financial position fully reflect any net liability related to the plans' projected benefit obligations, reduced by the fair value of any plan assets, including unrecognized net experience losses and prior service costs. Based on the funded status of the plans at December 31, 2012, the new standards reduced surplus by approximately \$260 million. The new standard permitted the Company an election to recognize this surplus reduction over a period of up to ten years, which the Company elected.

Plan Amendments

On September 8, 2016, the Company announced a plan amendment to freeze The Guardian Retirement Plan for Field Clerical Employees effective December 31, 2016. The plan amendment affects only the Field Clerical defined benefit pension plan. The announcement of the plan freeze resulted in a plan curtailment. As a result of this amendment, all plan participants ceased accruing additional benefits under the plan effective December 31, 2016. As of December 31, 2016, all active plan participants who completed one year of service (were hired no later than January 1, 2016) were fully vested in their accrued benefit. On September 26, 2016, the Company filed a determination letter with the Internal Revenue Service requesting approval to terminate the plan.

On May 23, 2017, the Company received a favorable determination letter from the IRS. From September to October 2017, Plan participants who were not yet receiving annuity payments were offered a one-time opportunity to receive their benefit in a lump sum payment. Lump sum payments were mailed to participants in December 2017 and paid out using the Field Clerical defined benefit pension plan assets. The December 2017 Lump Sum payments attributable to Field Clerical defined benefit pension plan were \$35.3 million and resulted in a partial settlement. As a result, a settlement charge of \$10.5 million was recognized as of December 31, 2017, equal to a pro rata portion of the aggregate unamortized net loss (including the gain or loss resulting from re-measurement of the plan assets at fair value). The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the partial settlement.

On September 8, 2016, the Company announced that all postretirement benefits offered to Field Clerical employees, Full Time Agents and General Agents ended on December 31, 2016. Field Clerical employees, Full Time Agents and General Agents eligible for postretirement benefits received a Special Transition Benefit in December 2016. The Special Transition Benefit was a one-time, lump sum cash payment in lieu of life insurance coverage and the contribution Guardian provides to retirees to help pay for retiree medical and dental coverage. The Company recorded a curtailment gain to recognize a reduction in the accrued postretirement benefit obligation for removing Field Clerical employees, Full Time Agents and General Agents who were not eligible for postretirement benefits as of December 31, 2016.

On February 21, 2017, the Company announced a plan amendment to close the Home Office Employees' Retirement Plan to employees hired on or after January 1, 2018. Home Office employees hired on or after January 1, 2018 will be offered a new defined contribution plan.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The table below discloses the remaining unrecognized transition impact:

Surplus Impact at Transition

Transition Liability	\$	260
Amount Recognized on January 1, 2013		(59)
Accelerated Transition Liability recognized due to funded status gains – December 31, 2013		<u>(120)</u>
Remaining Transition Liability - December 31, 2013		<u>81</u>
Transition amount recognized during 2014		(19)
Transition amount recognized during 2015		(33)
Transition amount recognized during 2016		(13)
Transition amount recognized during 2017		<u>(13)</u>
Remaining Transition Liability - December 31, 2017	\$	<u><u>3</u></u>

The table below discloses the anticipated recognition of the remaining transition impact:

<u>Minimum Transition Liability:</u>	<u>Anticipated Amortization</u>	<u>Remaining Transition Liability</u>
2018	3	-

Components of Net Periodic Benefit Expense

The components of net periodic pension and postretirement benefits expense including the amount of unrecognized items amortized into expense for the years ended December 31 are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefit</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In millions)			
Service cost	\$ 76	\$ 71	\$ 6	\$ 6
Interest cost	100	95	9	11
Expected return on plan assets	(131)	(132)	(9)	(10)
Amortization of transition amount	1	1	-	-
Amortization of prior service costs	-	-	(2)	(8)
Amortization of actuarial net loss	58	46	3	17
Curtailment	-	-	-	(6)
Settlement	<u>11</u>	<u>-</u>	<u>-</u>	<u>2</u>
Net periodic expense	<u>\$ 115</u>	<u>\$ 81</u>	<u>\$ 7</u>	<u>\$ 12</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Changes in the projected benefit obligations and plan assets during the years ended December 31, 2017 and December 31, 2016 were as follows (in millions):

Change in benefit obligation	Pension Benefits		Postretirement Benefits	
	2017	2016	2017	2016
Benefit obligation, at beginning of period	\$ 2,352	\$ 2,038	\$ 226	\$ 240
Service cost	76	71	6	6
Interest cost	101	95	9	11
Actuarial loss	282	229	20	9
Curtailments	-	(9)	-	(9)
Settlements	(37)	-	-	(18)
Benefits paid	(74)	(72)	(12)	(13)
Other	19	-	-	-
Benefit obligation, at end of period	\$ <u>2,719</u>	\$ <u>2,352</u>	\$ <u>249</u>	\$ <u>226</u>

Change in fair value of plan assets	Pension Benefits		Postretirement	
	2017	2016	2017	2016
Plan assets, at beginning of period	\$ 1,766	\$ 1,672	\$ 134	\$ 134
Actual return on plan assets	252	151	23	13
Employer contributions	146	15	-	-
Settlements	(37)	-	-	-
Benefits paid	(74)	(72)	(12)	(13)
Other	19	-	-	-
Plan assets, at end of period	\$ <u>2,072</u>	\$ <u>1,766</u>	\$ <u>145</u>	\$ <u>134</u>

Funded status	Pension Benefits		Postretirement	
	2017	2016	2017	2016
Funded status at end of period	\$ (647)	\$ (586)	\$ (104)	\$ (92)
Unrecognized transition liability	1	2	-	-
Unrecognized prior service costs	1	1	4	2
Unrecognized actuarial net loss	889	796	61	58
Net amount recognized	\$ <u>244</u>	\$ <u>213</u>	\$ <u>(39)</u>	\$ <u>(32)</u>

Recognized as of December 31	Pension Benefits		Postretirement	
	2017	2016	2017	2016
Prepaid benefit cost	\$ -	\$ -	\$ 11	\$ 9
Less assets non admitted	-	-	(11)	(9)
Accrued liability	(647)	(586)	(112)	(85)
Net amount recognized	\$ <u>(647)</u>	\$ <u>(586)</u>	\$ <u>(112)</u>	\$ <u>(85)</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Unrecognized actuarial net gains or losses represent cumulative amounts by which plan experience for return on plan assets or changes in benefit obligations has been more or less favorable than assumed. These net differences are recognized in surplus, and in future years recognized as components of expense.

The amounts below are estimated to be amortized from surplus into net periodic benefit cost in 2018 as follows:

	<u>Pension</u> <u>Benefits</u>	<u>Other</u> <u>Benefits</u>
	(In millions)	
Net transition obligation	\$ 1	\$ -
Net prior service cost	-	(2)
Net loss	<u>75</u>	<u>4</u>
	<u>\$ 76</u>	<u>\$ 2</u>

Assumptions

Weighted average assumptions used in calculating the benefit obligations were as follows:

	<u>Pension Benefits</u>		<u>Post Retirement Benefits</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	3.80%	4.35%	3.75%	4.30%
Rate of compensation increase	3.00%	3.00%	n/a	n/a

Weighted average assumptions used in calculating the net periodic benefit cost were as follows:

	<u>Pension Benefits</u> <u>For the Years Ended</u>		<u>Post Retirement Benefits</u> <u>For the Years Ended</u>	
	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>	<u>December 31,</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Discount rate	4.35%	4.75%	4.30%	4.70%
Rate of compensation increase	3.00%	3.00%	n/a	3.00%
Expected return on plan assets:				
Assets in trust account	7.80%	8.00%	7.80%	8.00%
Assets held under insurance contract/other	n/a	4.35%	n/a	4.35%

Assumed health care cost trend rates were as follows:

	<u>As of December 31,</u>	
	<u>2017</u>	<u>2016</u>
Medical & Prescription Pre - Age 65	7.5%, grading to 4.5% over 13 years	6.3%, grading to 4.5% over 10 years

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The trend rates above reflect the Company's current claim experience and management's expectation that future rates of growth will decline. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. At December 31, 2017, a one-percent-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation ("APBO") for postretirement benefits by \$0.1 million and \$2.0 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by \$0.1 million and \$1.9 million, respectively. At December 31, 2016, a one-percentage-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by \$0.1 million and \$1.5 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by \$0.1 million and \$1.4 million, respectively.

The accumulated benefit obligations ("ABO") for the funded and unfunded pension plans were \$2,072 million and \$413 million, respectively, at December 31, 2017 and \$1,754 million and \$335 million, respectively, at December 31, 2016. The APBO for the postretirement plans was \$249 million at December 31, 2017 and \$226 million at December 31, 2016.

For the pension plans with ABO in excess of plan assets, the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were \$2,719 million, \$2,485 million, and \$2,072 million respectively at December 31, 2017 and \$1,033 million, \$917 million, and \$583 million respectively at December 31, 2016.

Prior to 2017, the pension plans held immediate participation guarantee group annuity ("IPG") contracts purchased from the Company. These contracts were expected to provide future benefits to plan participants specifically covered by these contracts of \$18 million at December 31, 2016. During 2017, the contract liabilities totaling \$19 million were transferred into the obligations of the pension plans and are reflected in the Projected Benefit Obligations of the plans. The IPG contracts are no longer active.

With respect to the Company's pension plans, the actuarially calculated funding amount ranges from the minimum amount the Company would be required to contribute to the maximum amount that would be deductible for tax purposes. Contribution amounts in excess of the minimum amounts are deemed voluntary. Amounts in excess of the maximum amount would be subject to an excise tax and may not be deductible under the Internal Revenue Code. The Company made contributions totaling \$142 million in 2017 to its pension plans and expects to make a \$18.1 million contribution in 2018 to its field clerical defined benefit pension plan.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Benefit Payments

The following table disclosed the expected benefit payments for the Company's pension and postretirement plans. The expected benefit payments for 2018 include the payments associated with the decision to terminate the Field Clerical defined benefit pension plan.

Estimated Future Payments	(In millions)	
	<u>Pension Benefits</u>	<u>Other Benefits</u>
2018	\$ 235	\$ 13
2019	140	14
2020	142	14
2021	152	15
2022	149	15
2023-2027	822	85

Plan Assets

The Company's pension and postretirement plans' asset allocation by major asset class at December 31, 2017 and December 31, 2016, and the target allocation for 2018, are as follows:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>Percentage of Plan Assets at</u>	
	<u>2018</u>	<u>As of December 31, 2017</u>	<u>As of December 31, 2016</u>
U.S. Stocks	10%-50%	31%	36%
International Stocks	5%-15%	6%	7%
Non-convertible Bonds	45%-75%	63%	57%
Convertible Bonds	0%-10%	0%	0%
		<u>100%</u>	<u>100%</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The investment strategy with respect to the Company's pension plan assets is to preserve capital and to seek investment returns with a goal of fully funding the plan.

The expected rate of return was 7.8% for the year ending December 31, 2017 and 8.0% for the year ending December 31, 2016. These rates of return are an aggregation of expected returns within each asset category. The return with respect to each asset class considers both historical returns and the future expectations for such returns.

Target allocations of assets are determined with the objective of maximizing returns and minimizing volatility of net assets through adequate asset diversification and partial liability immunization. Adjustments are made to target allocations based on the Company's assessment of the impact of economic factors and market conditions.

The following table summarizes the Master Trust's financial instruments carried at fair value hierarchy levels. The fair values were estimated using the same methodology described in Note 4.

Description	As of December 31, 2017			Estimated Fair Value
	Level 1	Level 2	Level 3	
Common stocks	\$ -	\$ 639	\$ -	\$ 639
Fixed maturities				
U.S. Government	144	-	-	144
All other Government	-	5	-	5
States, Territories	-	3	-	3
Political Subdivisions	-	1	-	1
Special revenue	-	6	-	6
Industrial and Miscellaneous	-	1,207	-	1,207
Total Fixed maturities	144	1,222	-	1,366
Total	\$ 144	\$ 1,861	\$ -	\$ 2,005

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Description	As of December 31, 2016			Estimated Fair Value
	Level 1	Level 2	Level 3	
	(In millions)			
Common stocks	\$ -	\$ 643	\$ -	\$ 643
Fixed maturities				
U.S. Government	2	-	-	2
All other Government States, Territories	-	7	-	7
Political Subdivisions	-	3	-	3
Special revenue	-	1	-	1
Industrial and Miscellaneous	-	6	-	6
Industrial and Miscellaneous	-	1,025	-	1,025
Total Fixed maturities	2	1,042	-	1,044
Total	\$ 2	\$ 1,685	\$ -	\$ 1,687

There were no financial instruments carried at fair value and classified as Level 3 for the years ending December 31, 2017 and 2016.

Defined Contribution Plans

The Company sponsors defined contribution plans. Home office employees are covered by investment and profit sharing plan pension plans 401(k)/401(a). Employees can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 10% (if not highly paid) of non-matched contributions. In addition, the Company provides a profit sharing allocation in proportion to salary. Field representatives are covered by a 401(k)/401(a) investment plan in which they can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 12% (if not highly paid) of non-matched contributions. The assets for the home office employees and field representatives' plans are held in a trust. Full time agents and general agents are covered by non-contributory plans. The Company contributed \$29 million to these plans in 2017 and \$24 million in 2016. The Company funds these plans and reflects the funded amounts as a liability.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES

Consolidated Federal Income Tax Return

The Company's federal income tax return is consolidated with the following entities:

- Guardian Insurance & Annuity Company, Inc. and its subsidiaries,
- Park Avenue Life Insurance Company,
- Sentinel American Life Insurance Company,
- Family Service Life Insurance Company,
- Managed Dental Care of California,
- Managed Dental Guard of Texas,
- Managed Dental Guard of New Jersey,
- Innovative Underwriters Inc.,
- Berkshire Life Insurance Company of America
- First Commonwealth, Inc. and its subsidiaries
- Reed Group Ltd,
- GIS Canada Holdings Corp,
- Guardian Abbey LLC,
- STX Healthcare Management Services, Inc.,
- Vital Smiles, Inc.

The Company files a consolidated federal income tax return as parent, with its subsidiaries. The Company has a written agreement, approved by the Company's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity which is a party to the consolidation. Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net capital losses, which it may incur, or to recoup its net operating or capital losses carried forward as an offset to future net income or capital gains subject to federal income taxes.

The Internal Revenue Code limits the amount of non-life insurance losses that may offset life insurance company taxable income. The consolidated income tax liability is allocated among the members of the group pursuant to a tax allocation agreement. In accordance with the tax allocation agreement, each qualifying member of the group computes its tax provision and liability on a separate return basis, but may, where applicable, recognize benefits of net operating losses and capital losses utilized in the consolidated group. Subsidiary tax liabilities/benefits are settled subsequent to the filing of the federal income tax return.

The Company does not anticipate any significant changes to its tax contingencies within the next 12 months.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes.

The Tax Cuts and Jobs Act ("the Act") was enacted into law on December 22, 2017. Effective January 1, 2018, the Act reduces the corporate tax rate to 21%. The Act also included several provisions that impact life insurance companies, including the elimination of the net operating loss carryback and changing the calculation of life insurance tax reserves. As a result, the Company performed a review of its grouping of temporary differences and modified its grouping methodology for advanced premium in the admissibility calculation. The net surplus impact primarily as a result of the Act was \$140 million reduction in unassigned surplus.

The Company included reasonable estimates for certain effects of the Act and recorded provisional amounts as of December 31, 2017. The Company recorded provisional amounts for tax reserves which resulted in an increase in both deferred tax assets and deferred tax liabilities of \$142 million. The Company also recorded a provisional amount of \$28 million for the amount of deferred tax assets expected to be realized following the balance sheet date as part of 11 (b) of the admissibility calculation. The Company is currently evaluating these provisional amounts and expects to be complete within one year of the enactment date of the Act. Future changes to these provisional amounts, if any, will be recognized as a change in accounting estimate as the necessary information to update the provisional amounts becomes available.

The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

	December 31, 2017		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 1,385	\$ 37	\$ 1,422
Statutory valuation allowance adjustments	-	-	-
Adjusted Gross Deferred Tax Assets	1,385	37	1,422
Deferred Tax Assets Nonadmitted	23	-	23
Subtotal Net Admitted Deferred Tax Asset	1,362	37	1,399
Deferred Tax Liabilities	737	75	812
Net Admitted Deferred Tax Asset	\$ 625	\$ (38)	\$ 587

	December 31, 2016		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ 1,895	\$ 45	\$ 1,940
Statutory valuation allowance adjustments	-	-	-
Adjusted Gross Deferred Tax Assets	1,895	45	1,940
Deferred Tax Assets Nonadmitted	274	-	274
Subtotal Net Admitted Deferred Tax Asset	1,621	45	1,666
Deferred Tax Liabilities	817	122	939
Net Admitted Deferred Tax Asset	\$ 804	\$ (77)	\$ 727

	Change		
	Ordinary	Capital	Total
Gross Deferred Tax Assets	\$ (510)	\$ (8)	\$ (518)
Statutory valuation allowance adjustments	-	-	-
Adjusted Gross Deferred Tax Assets	(510)	(8)	(518)
Deferred Tax Assets Nonadmitted	(251)	-	(251)
Subtotal Net Admitted Deferred Tax Asset	(259)	(8)	(267)
Deferred Tax Liabilities	(80)	(47)	(127)
Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability)	\$ (179)	\$ 39	\$ (140)

As a result of the new tax law and rate, gross DTAs and DTLs were reduced by \$947 million and \$541 million, respectively.

A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company's management has concluded that the deferred income tax assets are more likely than not to be realized. Therefore, no valuation allowance has been provided.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

Impact of Tax Planning Strategies

	<u>December 31, 2017</u>	
	<u>Ordinary</u>	<u>Capital</u>
1. Adjusted Gross DTAs amount	\$ 1,385	37
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	2.5%
3. Net Admitted Adjusted Gross DTAs amount	1,362	37
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	6.1%

	<u>December 31, 2016</u>	
	<u>Ordinary</u>	<u>Capital</u>
1. Adjusted Gross DTAs amount	1,895	45
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	2.3%
3. Net Admitted Adjusted Gross DTAs amount	1,621	45
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	6.0%

	<u>Change</u>	
	<u>Ordinary</u>	<u>Capital</u>
1. Adjusted Gross DTAs amount	(510)	(8)
2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies	0.0%	0.2%
3. Net Admitted Adjusted Gross DTAs amount from	(259)	(8)
4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies	0.0%	0.1%

Does the Company's tax-planning strategies include the use of reinsurance? Yes _____ No X

All DTL were recognized as of December 31, 2017 and December 31, 2016

Current income taxes incurred consisted of the following major components:

<u>Description</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Change</u>
(In millions)			
Federal income tax expense on operating income	\$ 97	\$ 169	\$ (72)
Prior year overaccrual	(32)	(28)	(4)
Contingent tax	-	-	-
Current Federal operations income tax expense	\$ 65	\$ 141	\$ (76)
Federal income tax expense on capital gains	\$ 141	\$ 136	\$ 5
Prior year underaccrual	11	28	(17)
Current Federal capital gain income tax expense	\$ 152	\$ 164	\$ (12)
Federal and foreign income taxes incurred	\$ 217	\$ 305	\$ (88)

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
	(In millions)		
DTAs Resulting from Book/Income Tax Differences In:			
Ordinary:			
Reserves	\$ 582	\$ 617	\$ (35)
Policy acquisition costs	258	411	(153)
Dividend provision	180	298	(118)
Liabilities for employees and agents	100	152	(52)
Non admitted assets	222	335	(113)
Contract liabilities and unpaid claims	1	1	-
Leasehold improvement	12	12	-
Other	30	69	(39)
	<u>1,385</u>	<u>1,895</u>	<u>(510)</u>
Gross ordinary DTA - (admitted and nonadmitted)	\$ -	\$ -	-
Statutory valuation allowance adjustment - ordinary	-	-	-
Total ordinary DTA - (nonadmitted)	<u>23</u>	<u>274</u>	<u>(251)</u>
Admitted ordinary DTA	1,362	1,621	(259)
Capital:			
Impaired securities	32	39	(7)
Other	5	6	(1)
	<u>37</u>	<u>45</u>	<u>(8)</u>
Gross capital DTA - (admitted and nonadmitted)	-	-	-
Total capital DTA - (nonadmitted)	<u>-</u>	<u>-</u>	<u>-</u>
Admitted capital DTA	<u>37</u>	<u>45</u>	<u>(8)</u>
Total admitted DTA	\$ <u>1,399</u>	\$ <u>1,666</u>	\$ <u>(267)</u>
DTLs Resulting from Book/Income Tax Differences In:			
Ordinary:			
Deferred and uncollected premiums	\$ 229	\$ 370	\$ (141)
Advanced Premium	66	-	66
Reserve Transition Adjustment (8 Year)	142	-	142
Guaranteed dividend	120	202	(82)
Other invested assets	68	86	(18)
Pension	43	64	(21)
Reserves 10 Year spread	13	27	(14)
Other	56	68	(12)
	<u>737</u>	<u>817</u>	<u>(80)</u>
Ordinary DTL	\$ <u>737</u>	\$ <u>817</u>	\$ <u>(80)</u>
Capital:			
Unrealized capital gains	25	26	(1)
Deferred gain	49	92	(43)
Other	1	4	(3)
	<u>75</u>	<u>122</u>	<u>(47)</u>
Capital DTL	<u>75</u>	<u>122</u>	<u>(47)</u>
Total DTL	\$ <u>812</u>	\$ <u>939</u>	\$ <u>(127)</u>
Net admitted DTA/(DTL)	\$ <u>587</u>	\$ <u>727</u>	\$ <u>(140)</u>

The Change in net deferred income taxes is comprised of the following:

Adjusted gross deferred tax assets	\$ 1,422	\$ 1,940	\$ (518)
Total Deferred Tax Liabilities	<u>812</u>	<u>939</u>	<u>(127)</u>
Net deferred tax assets (liabilities)	\$ <u>610</u>	\$ <u>1,001</u>	\$ <u>(391)</u>
Tax effect of net unrealized gains (losses)			-
Change in net deferred income tax			<u>\$ (391)</u>

Changes in net deferred income tax, including changes attributable to changes in tax rates and changes in tax status, if any, shall be recognized as a separate component of gains and losses in unassigned funds (Surplus).

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 8 – INCOME TAXES (CONTINUED)

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant book to tax adjustments causing this difference were the following:

	<u>December 31, 2017</u>	<u>Effective Tax Rate</u>
	(In millions)	
Net gain from operations after dividends to policyholders and before Federal income tax @ 35%	\$ 181	
Net realized capital gains (losses) @ 35%	43	
Provision calculated at statutory rate	<u>224</u>	35.00%
Tax effect of:		
Interest maintenance reserve	24	3.75%
Affiliated Dividends	(18)	(2.81%)
Pension Adjustment	(38)	(5.94%)
Change in Tax law and rate	423	66.09%
Other	(7)	(1.09%)
Total statutory income taxes	<u>\$ 608</u>	<u>95.00%</u>
Federal income taxes incurred	217	33.91%
Change in net deferred income taxes	391	61.09%
Total statutory income taxes	<u>\$ 608</u>	<u>95.00%</u>

Operating Loss and Tax Credit Carryforwards

As of December 31, 2017, the Company does not have any net ordinary loss carryforwards, capital loss carryforwards or tax credit carryforwards.

The following are income taxes incurred in prior years that are available for recoupment in the event of future net losses:

<u>Year</u>	<u>Ordinary</u>	<u>Capital</u>	<u>Total</u>
	(In millions)		
2017	\$ -	\$ 135	\$ 135
2016	-	152	152
2015	-	137	137
Total	<u>\$ -</u>	<u>\$ 424</u>	<u>\$ 424</u>

As of December 31, 2017, the Company does not have any deposits admitted pursuant to the Internal Revenue Code Section 6603.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 9 – REINSURANCE CEDED

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding business to reinsurers under various modified coinsurance agreements, coinsurance agreements, and combinations thereof, and yearly renewable term agreements. These agreements provide for reinsurance of selected individual life and disability policies and group life and group health contracts. Under the terms of the modified coinsurance agreements, reserves related to the reinsured business and the corresponding assets are held by the Company. The Company retains the primary obligation to the policyholder for reinsured policies. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, the Company evaluates the financial condition of its reinsurers in order to minimize its exposure to losses from reinsurer insolvencies.

The effects of these ceding agreements on the components of gain from operations in the accompanying statutory basis statements of operations are as follows:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ (463)	\$ (460)
Commissions and expense allowances (other income)	<u>121</u>	<u>119</u>
Total revenues	<u>(342)</u>	<u>(341)</u>
Benefit payments to policyholders and beneficiaries	(350)	(359)
Net reductions to policy benefit reserves	(49)	(86)
Commissions and operating expenses	<u>2</u>	<u>5</u>
Total expenses	<u>(397)</u>	<u>(440)</u>
Net gain on operations from reinsurance ceded	\$ <u>55</u>	\$ <u>99</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 10 – REINSURANCE ASSUMED

The Company enters into various modified coinsurance agreements, coinsurance agreements, and combinations thereof and yearly renewable term agreements that provide reinsurance on life insurance, annuities, credit life, disability insurance, and credit accident and health business. Under the terms of the various reinsurance treaties, the Company assumed (net of retrocession) approximately \$3.3 billion face amount of life insurance at December 31, 2017 and \$3.4 billion at December 31, 2016. Under the terms of modified coinsurance agreements, reserves related to the reinsured business and the corresponding assets are held by the ceding company.

The Company entered into a coinsurance agreement with BLICOA an affiliated insurance company effective January 1, 2013. Under the agreement, the Company assumed 80% of the net individual disability insurance (IDI) originally ceded to BLICOA from the Company via the July 1, 2001 coinsurance treaty as well as 80% of the IDI and multi-life (ML) business written by BLICOA since the 2001 treaty. The reinsurance is done on a funds withheld basis with supporting invested assets remaining in BLICOA.

Also, as part of the terms of the agreement, the Company can request that BLICOA pay an amount equal to the Annual Funds Withheld Increase to the Company. In 2017 the Company did not request that BLICOA pay an amount equal to the Annual Funds Withheld Increase it recorded in 2016. In January 2016, as part of the terms of its reinsurance agreement with BLICOA, the Company requested that BLICOA pay a partial amount of the Annual Funds Withheld Increase it recorded in 2015. BLICOA paid the Company the agreed upon settlement amount of \$65 million in January 2016. The settlement consisted of \$33 million of bonds and \$32 million of cash.

The Company entered into one Individual Life Yearly Renewable Term reinsurance agreement with an affiliated insurance company GIAC, effective January 1, 2011. The agreement covers GIAC's current form Secondary Guarantee Universal Life and Survivorship Universal Life plans having policy effective dates of January 1, 2011 and later. Reinsurance under the agreement is assumed on an automatic 90% first dollar quota share basis.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 10 – REINSURANCE ASSUMED (CONTINUED)

The following tables outline the effects of these assumption agreements on the accompanying Statutory Basis Statements of Operations.

Reinsurance Assumed from Affiliates

	<u>2017</u>	<u>2016</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ 659	\$ 639
Reserve adjustments on reinsurance (other income)	<u>22</u>	<u>23</u>
Total revenues	<u>681</u>	<u>662</u>
Benefit payments to policyholders and beneficiaries	258	275
Net additions to policy benefit reserves	138	126
Commissions and operating expenses	<u>225</u>	<u>210</u>
Total expenses	<u>621</u>	<u>611</u>
Net gain on operations from reinsurance assumed	<u>\$ 60</u>	<u>\$ 51</u>

Reinsurance Assumed from Non-Affiliates

	<u>2017</u>	<u>2016</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ <u>3</u>	\$ <u>2</u>
Total revenues	<u>3</u>	<u>2</u>
Benefit payments to policyholders and beneficiaries	(1)	(2)
Net reductions to policy benefit reserves	(2)	(1)
Commissions and operating expenses	<u>4</u>	<u>7</u>
Total expenses	<u>1</u>	<u>4</u>
Net gain/(loss) on operations from reinsurance assumed	<u>\$ 2</u>	<u>\$ (2)</u>

Total Reinsurance Assumed

	<u>2017</u>	<u>2016</u>
	(In millions)	
Premiums, annuity considerations and fund deposits	\$ 662	\$ 641
Reserve adjustments on reinsurance (other income)	<u>22</u>	<u>23</u>
Total revenues	<u>684</u>	<u>664</u>
Benefit payments to policyholders and beneficiaries	257	273
Net additions to policy benefit reserves	136	125
Commissions and operating expenses	<u>229</u>	<u>217</u>
Total expenses	<u>622</u>	<u>615</u>
Net gain on operations from reinsurance assumed	<u>\$ 62</u>	<u>\$ 49</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS

During 2016, the Company sold \$27 million of bank loans that it held in its general account to a downstream affiliate, Park Avenue Institutional Advisers CLO LTD 2016-1 (“PAIA CLO 2016-1”). The Company recorded a \$1 million loss on the sale of the bank loans in 2016. PAIA CLO 2016-1 is a special purpose vehicle (“SPV”) that was established in the Cayman Islands whose purpose is to be the “Issuer” of one or more classes of notes that are secured by a portfolio of investments held by the Issuer and rated by at least one rating agency (the “Rated Notes”), and one or more classes of notes that are unrated and subordinate in right of payment to the Rated Notes (the “Subordinated Notes”). PAIA CLO 2016-1 issued \$363 million in notes in August 2016.

In 2017 and 2016, the Company made the following capital contributions to its real estate joint ventures and affiliates which are an addition to Other invested assets in the Statutory Basis Balance Sheets:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Guardian CapCo, LLC	\$ -	\$ 3
Truamerica Properties, LLC	-	7
Truamerica Properties II, LLC	-	1
Lowe's Capital Partners 2A, LLC	-	3
Lowe's Capital Partners 2B, LLC	-	2
Guardian Abbey, LLC	1	1
Guardian Shores, LLC	-	16
Total	<u>\$ 1</u>	<u>\$ 33</u>

In 2017 and 2016, the Company made the following capital contributions to its subsidiaries:

	<u>2017</u>	<u>2016</u>
	(In millions)	
GIAC	\$ 50	\$ 100
GIS	112	365
FCW	58	204
Guardian Acquisition I, LLC	25	-
Total	<u>\$ 245</u>	<u>\$ 669</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

The capital contribution to GIS and Guardian Acquisition I, LLC are recorded as an addition to Other invested assets in the Statutory Basis Balance Sheets, while the capital contributions to GIAC and FCW are recorded as an addition to Common and preferred stocks in the Statutory Basis Balance Sheets.

Of the \$112 million contribution to GIS in 2017, \$90 million was made by transferring Access Professional Dental Care, LLC and Access Dental Services, LLC and its subsidiaries, previously wholly owned subsidiaries of FCW, and \$2 million was related to the transfer of real estate joint venture LLCs.

Of the \$365 million contribution to GIS in 2016, \$235 million was made by transferring real estate joint venture LLCs and \$130 million was made by transferring Reed Group, Ltd., a previously wholly owned subsidiary of FCW.

In 2017, the Company received no returns of capital from its real estate affiliates. In 2016, the Company received returns of capital from its real estate affiliates as follows, which are a reduction to Other invested assets in the Statutory Basis Balance Sheets:

	<u>2016</u>
	(In millions)
Guardian LCP Hospitality I, LLC	\$ 1
Guardian Westwood Holdings, LLC	10
Guardian LCP Hospitality Finance, LLC	<u>3</u>
Total	<u>\$ 14</u>

In 2017 and 2016, the Company received net returns of capital of \$60 million and \$56 million respectively from its real estate joint ventures. These distributions are a reduction to Other invested assets in the Statutory Basis Balance Sheets.

In 2017 and 2016, the Company also received returns of capital from its subsidiaries as follows:

	<u>2017</u>	<u>2016</u>
	(In millions)	
BLICOA	\$ -	\$ 20
FCW	113	158
GIS	-	178
PALIC	<u>25</u>	<u>-</u>
Total	<u>\$ 138</u>	<u>\$ 356</u>

The return of capital from GIS is recorded as a reduction to Other invested assets in the Statutory Basis Balance Sheets, while the returns of capital from BLICOA, FCW, and PALIC are recorded as an reduction to Common and preferred stocks in the Statutory Basis Balance Sheets.

Of the \$113 million return of capital from FCW in 2017, \$90 million was a transfer of Access Professional Dental Care, LLC and Access Dental Services, LLC and its subsidiaries, wholly owned subsidiaries of FCW.

Of the \$158 million return of capital from FCW in 2016, \$130 million was a transfer of Reed Group Ltd., a wholly owned subsidiary of FCW.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

In 2017 and 2016, the Company received the following dividends from its affiliates and subsidiaries which are recorded as Net investment income in the Statutory Basis Statements of Operations:

	<u>2017</u>		<u>2016</u>
		(In millions)	
BLICOA	\$ 3		\$ 6
Managed Dental Care of California (“MDC”)	5		5
Managed Dental Guard of Texas, Inc. (TX)	1		1
FCW	37		-
Innovative Underwriters, Inc.	1		-
	<u>\$ 47</u>		<u>\$ 12</u>

The Company has expense sharing agreements with its subsidiaries. During 2017 and 2016, the Company had net billings of \$278 million and \$296 million, respectively, under the expense sharing agreements. Amounts billed to subsidiaries are included in Commissions and operating expenses in the Statutory Basis Statements of Operations. The unpaid net receivable balance due from subsidiaries relevant to these agreements was \$31 million and \$29 million on December 31, 2017 and December 31, 2016, respectively, and are included in Other assets and Other liabilities in the Statutory Basis Balance Sheets.

Effective May 1, 2017, the Company (Lender) amended its revolving line of credit agreement with GIAC (Borrower) from \$350 million to \$750 million. The terms of the credit agreement state that future drawing, if any, (not at the time overdue) shall bear interest at a rate per annum equal to (a) the Prime Rate plus 1.00% if a Prime Rate Loan or (b) the Eurodollar Rate plus 1.00% if a Eurodollar Rate Loan. In the event any drawing on the line of credit becomes due, whether by acceleration or otherwise, it shall bear interest at a rate per annum equal to the Prime Rate plus 2.00%. Additionally, a commitment fee equal to 0.125% per annum of the amount of this line of credit shall be paid by Borrower to Lender, such amount to be paid in quarterly installments on the last day of each March, June, September and December or on the termination of this line of credit. For Value Received, the Borrower, promises to pay on the maturity date or dates determined by the Lender, the principal sum of \$750 million or the aggregate unpaid principal sum of all Loans which the Lender actually makes to the Borrower, whichever amount is less, together with interest in arrears payable on each Interest Due Date at a rate computed on the basis of a 360-day year for the actual number of days in each interest period. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender shall notify the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIAC is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2017, and 2016 the amounts of drawings on the line of credit amounted to \$0 million and \$148 million, respectively, and are included in Cash, cash equivalents and short-term investments in the Statutory Basis Balance Sheets. Interest income and commitment income of \$3 million and \$2 million as of December 31, 2017 and 2016, respectively, are included in Net investment income in the Statutory Basis Statements of Operations.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

Effective January 3, 2017, the Company (Lender) has a revolving line of credit agreement with GIS (Borrower) for \$300 million. The terms of the credit agreement state that future drawing, if any, (not at the time overdue) shall bear interest at a rate per annum equal to (a) the Prime Rate plus 1.00% if a Prime Rate Loan or (b) the Eurodollar Rate plus 1.00% if a Eurodollar Rate Loan. In the event any drawing on the line of credit becomes due, whether by acceleration or otherwise, it shall bear interest at a rate per annum equal to the Prime Rate plus 2.00%. Additionally, a commitment fee equal to 0.125% per annum of the amount of this line of credit shall be paid by Borrower to Lender, such amount to be paid in monthly installments no later than the last day of each month or on the termination of this line of credit. For Value Received, the Borrower, promises to pay on the maturity date or dates determined by the Lender, the principal sum of \$300 million, or the aggregate unpaid principal sum of all Loans which the Lender actually makes to the Borrower, whichever amount is less, together with interest in arrears payable on each Interest Due Date at a rate computed on the basis of a 360-day year for the actual number of days in each interest period. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender shall notify the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIS is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2017, the amounts of drawings on the line of credit amounted to \$25 million, and are included in Cash, cash equivalents and short-term investments in the Statutory Basis Balance Sheets. Interest income and commitment income of \$1 million as of December 31, 2017, are included in Net investment income in the Statutory Basis Statements of Operations.

The Company (Lender) had a revolving line of credit agreement with RS (Borrower) for \$15 million which terminated upon the sale of RS on July 29, 2016.

Related Party Commitments:

The Company provides financial guarantees on behalf of some of its subsidiaries and affiliates as listed below. Per the statutory accounting guidance SSAP 5R, a liability has not been recorded on the Company's Statutory Basis Balance Sheets for any of these guarantees.

The Company continues to provide MDC, a subsidiary, a written letter of financial support for \$5 million of which \$1.5 million was funded in prior years. This amount was recorded as an additional investment in MDC. The letter was necessary for regulatory purposes in order to guarantee additional capital infusion to its California dental subsidiary as needed. At this time, MDC is not expected to further draw on the remaining \$3.5 million as the subsidiary has \$5 million more capital than is required by California.

As of December 31, 2017 and 2016, the Company had no commitments to make capital contributions to its' subsidiaries.

Settlement of Intercompany Transactions:

In accordance with NAIC SAP, all transactions between related parties are required to have a written agreement that provides for a timely settlement of amounts owed, including a specific due date. Amounts over ninety days due are to be non-admitted along with any uncollected receivable from a related party that is not part of a written agreement. The Company has determined that written agreements are in place for all intercompany transactions and that these written agreements contain specific due dates. As of December 31, 2017, there was no intercompany receivable that was more than 90 days past due.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 12 – LIABILITY FOR UNPAID CLAIMS AND CLAIM RESERVES

Activity in the liability for unpaid accident and health claims and claim reserves is summarized as follows and is included in Reserves for policy benefits on the Statutory Basis Balance Sheets:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at January 1	\$ 3,788	\$ 3,574
Incurred related to:		
Current year	2,349	2,283
Prior years	(146)	(90)
Affiliated reinsurance	87	106
Total incurred	<u>2,290</u>	<u>2,299</u>
Paid related to:		
Current year	1,531	1,526
Prior years	354	332
Affiliated reinsurance	236	227
Total paid	<u>2,121</u>	<u>2,085</u>
Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at December 31	\$ <u>3,957</u>	\$ <u>3,788</u>

The affiliated reinsurance for the years ended December 31, 2017 and December 31, 2016 is primarily due to an intercompany reinsurance agreement between the Company and BLICOA effective January 1, 2013.

The amount of incurred claims related to prior years was a reduction \$146 million and \$90 million for the years ended December 31, 2017 and December 31, 2016, respectively, primarily due to favorable claim experience on the Company's long-term disability reserves, driven by favorable development of both the reported and unreported claim reserves.

Loss / Claim Adjustment Expenses:

The balance in the liability for unpaid accident and health claim adjustment expenses was \$84 million and \$79 million as of December 31, 2017 and December 31, 2016, respectively. The Company incurred \$55 million and paid \$50 million of claims adjustment expenses in 2017 of which \$15 million of the paid amount was attributable to insured or covered events of prior years. The Company did not increase or decrease the provision for insured events of prior years. Estimated anticipated salvage and subrogation related to the liability for unpaid claims / losses is not material and therefore does not reduce the liability.

The liability for unpaid accident and health claims and claim adjustment expenses represents the Company's best estimate with a margin; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant and result in increase in liabilities. As of December 31, 2017, and 2016, the Company had no significant changes in methodologies and assumptions used in calculating the liability. The Company updates its experience study annually for recent company claim experience used to set the liability for unpaid claims.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 13 – ASO PLANS

The net gain from operations from ASO uninsured plans and the uninsured portion of partially insured plans was as follows during the years ended December 31, 2017 and December 31, 2016:

	2017		
	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
	(In millions)		
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	\$ 23.3	\$ -	\$ 23.3
Total net other income or expenses (including interest paid to or received from plans)	8.2	-	8.2
Net gain from operations	15.1	-	15.1
Total claim payment volume	519	-	519

	2016		
	ASO Uninsured Plans	Uninsured Portion of Partially Insured Plans	Total ASO
	(In millions)		
Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses	\$ 4.4	\$ -	\$ 4.4
Total net other income or expenses (including interest paid to or received from plans)	1.5	-	1.5
Net gain from operations	2.9	-	2.9
Total claim payment volume	488	-	488

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 14 – LEASES

New York Home Office Building:

In June 1998, the Company executed a 21-year lease for its New York home office facility. A portion of the property is subleased to tenants under lease terms expiring through 2019. The lease is classified as operating. Rental expense for the property was \$21 million for the year ended December 31, 2017 and \$21 million for the year ended December 31, 2016. Sublease income was \$9 million for the year ended December 31, 2017 and \$9 million for the year ended December 31, 2016.

On January 9, 2017, the Company exercised its purchase option on the building. If the terms contained in the purchase option agreement are met the Company will be required to pay the \$147 million purchase price to the seller on September 30, 2019. During 2017, the Company entered into an agreement to sell the building which is expected to close in late 2019 and is not expected to result in a loss.

The following is a schedule by year of the minimum rental payments due under the lease:

	(In millions)
Year ending December 31,	
2018	\$ 21
2019	<u>16</u>
Total	<u>\$ 37</u>

The minimum aggregate sublease income is as follows:

	(In millions)
Year ending December 31,	
2018	\$ 9
2019	<u>7</u>
Total	<u>\$ 16</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 14 – LEASES (CONTINUED)

Other Leases:

The Company has additional lease agreements that are operating leases principally for the rental of real estate. Rental expense for these properties was \$22 million for year ended December 31, 2017 and \$20 million for the year ended December 31, 2016.

The Company's major office facility leases are primarily used for administrative and business support operations are as follows:

- On September 13, 2017, the Company signed a seventeen-year five month lease agreement for its New York home office facility. The Company expects to begin using the building in January 2019 as a replacement of the current New York home office facility. The Company is obligated to pay approximately \$15 million in annual base rent plus operating expenses and taxes.
- On March 8, 2017, the Company signed a fifteen-year lease agreement for its New Jersey home office facility. The Company expects to begin using the building in quarter one of 2018 and is obligated to pay approximately \$3 million in annual base rent plus operating expenses and taxes.
- On August 11, 2016, the Company signed a ten-year lease agreement for its Spokane home office facility. The Company began using the building in March.

The following is a schedule by year of the minimum rental payments due under the lease:

	(In millions)
Year ending December 31,	
2018	\$ 23
2019	36
2020	34
2021	32
2022 - and Thereafter	<u>30</u>
Total	<u>\$ 155</u>

The minimum aggregate sublease income is as follows:

	(In millions)
Year ending December 31,	
2018	\$ 6
2019	6
2020	6
2021	5
2022 - and Thereafter	<u>4</u>
Total	<u>\$ 27</u>

The Company guarantees the leases for some of its agents. The fair value of the guarantees as of December 31, 2017 is estimated to be \$1 million. The remaining lease obligations that are guaranteed as of December 31, 2017 is \$22 million.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 15 – COMMITMENTS

Commitments to fund real estate, private equities, mortgage loans, and private placements in the normal course of business totaled \$1,393 million and \$1,416 million as of December 31, 2017 and December 31, 2016, respectively.

NOTE 16 – LITIGATION

The Company is engaged in various legal actions, in the ordinary course of business, arising out of its insurance, broker-dealer and investment operations. In the opinion of management, any losses together with the ultimate liability resulting from such actions would not have a material adverse effect on the financial position of the Company.

NOTE 17 – LINES OF CREDIT

The Company has \$75 million in unsecured credit available. The interest rate on these lines is calculated on a base rate such as the bank's Prime rate plus a spread which varies from 0 - 125bps depending on the bank, or LIBOR plus a spread which varies from 75 - 125bps depending on the bank. The Company did not use the lines of credit during 2017 or 2016 and had \$0 outstanding liability at December 31, 2017 and December 31, 2016.

NOTE 18 – POLICYHOLDERS' SURPLUS

There were no special contingency reserves included in policyholder's surplus at December 31, 2017 or December 31, 2016. The Company holds other reserves totaling \$46 million at December 31, 2017 and \$4 million at December 31, 2016 as required by New York State law for aviation business and Arkansas permanent surplus requirements. Surplus at December 31, 2017 and December 31, 2016 is as follows:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Accumulated earnings	\$ 7,921	\$ 7,676
Unrealized loss - common stock	(298)	(309)
Asset valuation reserve	(829)	(810)
Nonadmitted asset values	<u>(156)</u>	<u>(389)</u>
Total unassigned surplus	6,638	6,168
State required segregated surplus	46	4
Surplus	<u>\$ 6,684</u>	<u>\$ 6,172</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 19 – FINANCIAL INFORMATION

The following reconciles the New York SAP net income and surplus of Guardian as reported to regulatory authorities to consolidated GAAP income and GAAP equity:

	<u>2017</u>	<u>2016</u>
	(In millions)	
Statutory net income	\$ 423	\$ 368
Adjustments to GAAP basis:		
Realized capital gains	328	257
Capitalization of deferred policy acquisition costs	64	61
Future policy benefits	(1,131)	(1,080)
Elimination of IMR amortization	(99)	(122)
Establishment of deferred federal income taxes	404	(1)
Service fees	1,131	1,086
Policyholder dividends	34	5
Elimination of interest on affiliate reinsurance	(146)	(140)
Other	<u>(101)</u>	<u>49</u>
Consolidated GAAP income	<u>\$ 907</u>	<u>\$ 483</u>

	<u>2017</u>	<u>2016</u>
	(In millions)	
Statutory surplus	\$ 6,684	\$ 6,172
Adjustments to GAAP basis:		
Capitalization of deferred policy acquisition costs	3,442	3,817
Deferred software costs	22	37
Future policy benefits	(7,835)	(7,342)
Elimination of IMR	531	464
Elimination of AVR	829	810
Establishment of additional deferred federal income taxes	(1,206)	(1,240)
Policyholder dividends	435	401
Notes payable	(1,977)	(1,210)
Unrealized gains on investments and GAAP adjustments of affiliates	<u>11,203</u>	<u>8,714</u>
Consolidated GAAP equity	<u>\$ 12,128</u>	<u>\$ 10,623</u>

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 20 – SURPLUS NOTE

On October 6, 2009, the Company issued Surplus Notes (“2009 Notes”) with a principal balance of \$400 million, bearing interest at 7.375%, and a maturity date of September 30, 2039. Proceeds from the issuance of the 2009 Notes were \$392.4 million, net of discounts and fees. The 2009 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and will be administered by The Bank of New York Mellon as fiscal agent. Interest on these 2009 Notes is scheduled to be paid semiannually on March 31 and September 30 of each year. The 2009 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2009 Notes are not part of the legal liabilities of the Company. The 2009 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2009 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2009 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2009 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 50 basis points. On December 28, 2017 and January 9, 2018, the Company redeemed 2009 Notes with a principal balance of \$166.9 million and a carrying value of \$165.7 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). The Company paid \$33 million in interest for the years ended December 31, 2017 and \$30 million in 2016, respectively.

On June 19, 2014 the Company issued Surplus Notes (“2014 Notes”) with a principal balance of \$450 million, bearing interest at 4.875%, and a maturity date of June 19, 2064. Proceeds from the issuance of the 2014 Notes were \$444.6 million, net of discounts and fees. The 2014 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and will be administered by The Bank of New York Mellon as fiscal agent. Interest on these 2014 Notes is scheduled to be paid semiannually on June 19 and December 19 of each year. The 2014 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2014 Notes are not part of the legal liabilities of the Company. The 2014 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2014 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2014 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2014 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 25 basis points. The Company paid \$22 million in interest for the years ended December 31, 2017 and 2016, respectively.

On January 24, 2017, the Company issued a Surplus 2017 Notes (“2017 Notes”) with a principal balance of \$350 million, bearing interest at 4.850%, and a maturity date of January 24, 2077. Proceeds from the issuance were \$343.6 million, net of discounts and fees. On December 28, 2017 and January 9, 2018, the Company issued an additional amount of the 2017 Notes with a principal balance of \$229.3 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). All of the 2017 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and will be administered by The Bank of New York Mellon as fiscal agent. Interest on these 2017 Notes is scheduled to be paid semiannually on January 24 and July 24 of each year. The 2017 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2017 Notes are not part of the legal liabilities of the Company. The 2017 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2017 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the “make-whole” redemption price equal to the greater of the principal amount of the 2017 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2017 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 30 basis points. The Company paid \$8 million in interest for the year ended December 31, 2017.

The Guardian Life Insurance Company of America

Notes to Statutory Financial Statements

NOTE 20 – SURPLUS NOTE (CONTINUED)

The Company completed an exchange transaction in which it issued additional 2017 Notes in exchange for redeemed 2009 Notes. They were settled predominately on December 27, 2017 with a minimal amount settling on January 8, 2018. The 2009 Notes had a principal balance of \$166.9 million (\$165.7 million carrying value) and the additional 2017 Notes had a principal balance of \$229.3 million (\$170.5 million carrying value). Of the \$63.6 million discount at the time of the exchange, \$4.8 million pertaining to inducement for note holders to exchange their notes, was recorded as expense on the transaction date along with an increase to the carrying value of 2017 Notes. The remaining \$58.8 million will be charged to the Statutory Basis Statements of Operations over the life of the 2017 Notes.

NOTE 21 – UNCLAIMED PROPERTY

The Company holds reserves for potential liability totaling \$7 million at December 31, 2017 and \$12 million at December 31, 2016, respectively. The Company has recorded paid claims of \$3 million in 2017 and \$0 million in 2016.

NOTE 22 – AFFORDABLE CARE ACT FEE

The health insurance industry assessment mandated by the Patient Protection and Affordable Care Act of 2010 was levied on health insurers beginning in 2014 based on a ratio of an insurer's net health insurance premiums written for the previous calendar year compared to the total premiums written by U.S. health insurance industry for that year. On January 1, 2018, the Company will record a liability in the amount of \$42 million for estimated fee to be paid in September 2018. The estimated fee is based on \$2,106 million of dental and vision premiums written in 2017. The Company's Total Adjusted Capital on December 31, 2017 was \$8,044 million and the Authorized Control Level reported on its December 31, 2017 RBC was \$709 million. After adjusting for \$42 million recorded in special surplus that pertains to the estimated 2018 fee the Company's Total Adjusted Capital was \$8,002 million and its RBC Authorized Control Level was \$709 million. An RBC action level would not have been triggered had the fee for 2018 been reported as of December 31, 2017.

The Consolidated Appropriations Act, 2016 imposed a moratorium on the health insurance industry assessment mandated by the Affordable Care Act for the 2017 calendar year. Therefore there were no health insurance provider fees paid in 2017 and no liability was established.

NOTE 23 – SUBSEQUENT EVENTS

The Company considers events occurring after the balance sheet date but prior to February 27, 2018, the issuance of the financial statements to be subsequent events requiring disclosure. There were no subsequent events for the period ended December 31, 2017.

Guardian Life Insurance Company of America
Annual Statement for the Year Ended December 31, 2017
Schedule 1 - Selected Financial Data

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

		<u>2017 Annual Statement References</u>
Investment Income Earned		Exhibit of Net Investment Income
Government Bonds	\$ 50,594,566	
Bonds Exempt From US Tax		
Other Bonds (unaffiliated)	1,560,400,863	
Bonds of Affiliates		
Preferred Stocks (unaffiliated)		
Preferred Stocks of Affiliates		
Common Stocks (unaffiliated)	24,165,460	
Common Stocks of Affiliates	46,561,675	
Mortgages Loans	166,157,174	
Real Estate	68,979,212	
Contract Loans	253,409,506	
Cash/Short-term Investments	10,263,142	
Other Invested Assets		
Derivative Instruments	161,889,175	
Aggregate Write-Ins for Investment Income	<u>(11,486,758)</u>	
Gross Investment Income	<u>\$ 2,330,934,015</u>	
Real Estate Owned - Book Value less Encumbrances	<u>\$ 345,067,002</u>	Schedule A - Part 1
Mortgage Loans - Book Value:		
Farm Mortgages	\$ -	Schedule B - Part 1
Residential Mortgages	-	
Commercial Mortgages	<u>4,000,576,006</u>	
Total Mortgage Loans	<u>\$ 4,000,576,006</u>	
Mortgage Loans by Standing - Book Value:		
Good Standing	<u>4,000,576,006</u>	Schedule B, Part 1
Good Standing with Restructured Terms	<u>-</u>	Schedule B, Part 1
Interest overdue more than 90 days, not in foreclosure	<u>-</u>	Schedule B, Part 1
Foreclosure in Process	<u>-</u>	Schedule B, Part 1
Other Long Term Assets - Statement Value	2,368,508,831	Schedule BA, Part 1
Bonds and Stocks of Parents, Subsidiaries and Affiliates - Book Value		Schedule D - Summary by Country
Bonds	<u>38,124,689,784</u>	
Preferred Stocks	<u>-</u>	
Common Stocks	<u>1,537,827,041</u>	

Schedule 1 - Selected Financial Data - Continued

2017 Annual Statement
References

Bonds and Short Term Investments by Class & Maturity

Schedule D, Part 1A Sec 1

Bonds by Maturity - Statement Value

Due within one year or less	\$ 1,448,993,968
Over 1 year through 5 years	8,317,634,879
Over 5 years through 10 years	12,791,918,163
Over 10 years through 20 years	4,506,262,890
Over 20 years	<u>11,639,736,750</u>
Total by Maturity	<u>\$ 38,704,546,650</u>

Bonds by Class - Statement Value

Class 1	\$ 22,232,692,691
Class 2	14,685,469,862
Class 3	752,751,004
Class 4	869,002,798
Class 5	163,654,737
Class 6	<u>975,558</u>
Total by Class	<u>\$ 38,704,546,650</u>

Total Bonds Publicly Traded

26,676,970,920

Total Bonds Privately Placed

12,027,575,730

Preferred Stocks - Statement Value

-

Common Stocks - Market Value

1,537,827,055

Short Term Investments - Book Value

25,310,000

Options, Caps Floors, Collars, Swaps and Forwards

(29,961,206)

Futures Contracts

7,795,385

Cash on Deposit

(26,348,883)

Life Insurance In Force

Industrial	<u>-</u>
Ordinary	<u>370,963,866</u>
Credit Life	<u>-</u>
Group Life	<u>59,637</u>

Amount of Accidental Death Insurance In Force Under

Ordinary Policies	<u>1,034,677</u>
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Life Insurance Policies with Disability Provisions In Force

Industrial	<u>-</u>
Ordinary	<u>199,960,487</u>
Credit Life	<u>-</u>
Group Life	<u>-</u>

Supplementary Contracts In Force

Ordinary - Not Involving Life Contingencies	<u>-</u>
Amount on Deposit	<u>227,509,779</u>
Income Payable	<u>86,209</u>

Ordinary - Involving Life Contingencies

Income Payable	<u>338</u>
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Schedule D, Part 2, Sec. 1

Schedule D, Part 2, Sec. 2

Schedule DA, Part 1

Schedule DB, Part A,

Schedule DB, Part B,

Schedule E, Part 1

Exhibit of Life Insurance

Exhibit of Life Insurance

Exhibit of Life Insurance

Exhibit of Number of Policies,
Contracts,Certificates,Income Payable,
Account Values In Force for Supplementary
Contracts, Annuities, A&H and Other Policies

Schedule 1 - Selected Financial Data - Continued

		2017 Annual Statement References
<hr/>		
Group - Not Involving Life Contingencies		
Amount on Deposit	44,095,258	
Income Payable	-	
Group - Involving Life Contingencies		
Amount on Deposit	-	
Income Payable	-	
Annuities - Ordinary		
Immediate - Amount of Income Payable	588,539	Exhibit of Number of Policies, Contracts,Certificates,Income Payable, Account Values In Force for Supplementary Contracts, Annuities, A&H and Other Policies
Deferred - Fully Paid Account Balance	70,480,187	
Deferred - Not Fully Paid - Account Balance	142,461,177	
Annuities - Group		
Amount of Income Payable	79,643	Exhibit of Number of Policies, Contracts,Certificates,Income Payable, Account Values In Force for Supplementary Contracts, Annuities, A&H and Other Policies
Fully Paid Account Balance	-	
Not Fully Paid - Account Balance	-	
Accident and Health Insurance - Premiums In Force		
Ordinary	-	
Group	3,085,350,014	
Credit	-	
Other	505,734,414	
Deposit Funds and Dividend Accumulations		
Deposit Funds - Account Balance	25,306,757	Exhibit of Number of Policies, Contracts,Certificates,Income Payable, Account Values In Force for Supplementary Contracts, Annuities, A&H and Other Policies
Dividend Accumulations - Account Balance	99,331,551	
Claim Payments 2017		Schedule O, Part 1
Group Accident and Health Year - Ended December 31, 2015		Section A
2017	1,523,992	
2016	1,725,073	
2015	1,673,781	
2014	1,588,682	
2013	1,545,258	
Prior	2,101,014	
Other Accident & Health		Section B
2017	29,891	
2016	29,691	
2015	31,526	
2014	21,585	
2013	17,494	
Prior	130,947	
Credit Accident & Health	-	Section C
2017	-	
2016	-	
2015	-	
2014	-	
2013	-	
Prior	-	

Schedule 1 - Selected Financial Data - Continued

2017 Annual Statement
References

Other Coverages that use developmental methods to calculate
Claims Reserves:

Section D

2017	-
2016	-
2015	-
2014	-
2013	-
Prior	-

Other Coverages that use developmental methods to calculate
Claims Reserves:

Section E

2017	-
2016	-
2015	-
2014	-
2013	-
Prior	-

Other Coverages that use developmental methods to calculate
Claims Reserves:

Section F

2017	-
2016	-
2015	-
2014	-
2013	-
Prior	-

Other Coverages that use developmental methods to calculate
Claims Reserves:

Section G

2017	-
2016	-
2015	-
2014	-
2013	-
Prior	-

The Guardian Life Insurance Company of America
Investments of Reporting Entities
December 31, 2017

Section 2 Investment Risk Interrogatories

Answer the following interrogatories by stating the applicable U.S dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of the annual statement.
 \$55,568,820,448

2. Ten largest exposures to a single issuer/borrower/investment.

	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	GUARDIAN INVESTOR SERVICES	STOCK	\$ 823,561,817	1.5%
2.02	FIRST COMMON WEALTH INSURANCE COMPANY	STOCK	\$ 443,456,590	0.8%
2.03	GUARDIAN INS & ANNUITY CO NY, NY	STOCK	\$ 310,222,464	0.6%
2.04	JP MORGAN CHASE	BONDS/STOCK	\$ 261,097,193	0.5%
2.05	ISHARES MSCI EAFE	STOCK	\$ 220,889,121	0.4%
2.06	GOLDMAN SACHS GROUP INC	BONDS/STOCK	\$ 205,027,746	0.4%
2.07	GILEAD SCIENCES	BONDS/STOCK	\$ 201,892,562	0.4%
2.08	AT&T INC	BONDS/STOCK	\$ 199,265,081	0.4%
2.09	BERKSHIRE LIFE INSURANCE CO OF AMERICA	STOCK	\$ 189,096,958	0.3%
2.10	SIMON PROPERTY GROUP	BONDS	\$ 186,745,869	0.3%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating:

	Bonds	Amount	% of Total Admitted Assets	Preferred Stocks	Amount	% of Total Admitted Assets
3.01	NAIC-1	\$ 22,232,692,692	57.4%	P/RP-1	\$ -	0.0%
3.02	NAIC-2	\$ 14,685,469,862	37.9%	P/RP-2	\$ -	0.0%
3.03	NAIC-3	\$ 752,751,004	1.9%	P/RP-3	\$ -	0.0%
3.04	NAIC-4	\$ 869,002,798	2.2%	P/RP-4	\$ -	0.0%
3.05	NAIC-5	\$ 163,654,737	0.4%	P/RP-5	\$ -	0.0%
3.06	NAIC-6	\$ 975,558	0.0%	P/RP-6	\$ -	0.0%

4. Assets held in foreign investments:

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

Yes [] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02	Total admitted assets held in foreign investments	\$ 7,842,827,286	20.3%
4.03	Foreign-currency-denominated investments	\$ 852,015,647	2.2%
4.04	Insurance liabilities denominated in that same foreign currency	\$ -	0.0%

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

	<u>1</u>	<u>2</u>
5.01 Countries rated NAIC-1	\$ 7,275,941,339	18.8%
5.02 Countries rated NAIC-2	\$ 385,877,296	1.0%
5.03 Countries rated NAIC-3 or below	\$ 181,008,651	0.5%

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

	<u>1</u>	<u>2</u>
Countries rated NAIC-1		
6.01 Country: UNITED KINGDOM	\$ 1,770,675,039	4.6%
6.02 Country: AUSTRALIA	\$ 1,210,071,991	3.1%
Countries rated NAIC-2:		
6.03 Country: MEXICO	\$ 311,696,274	0.8%
6.04 Country: SPAIN	\$ 64,181,022	0.2%
Countries rated NAIC-3 or below		
6.05 Country: BAHAMAS	\$ 22,000,000	0.1%
6.06 Country: TRINIDAD	\$ 18,578,833	0.0%

7. Aggregate unhedged foreign currency exposure: \$ - 0.0%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
8.01 Countries rated NAIC-1	\$	0.0%
8.02 Countries rated NAIC-2	\$	0.0%
8.03 Countries rated NAIC-3 or below	\$ -	0.0%

9. Largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

	<u>1</u>	<u>2</u>
Countries rated NAIC-1:		
9.01 Country:	\$	0.0%
9.02 Country:	\$	0.0%
Countries rated NAIC-2:		
9.03 Country:	\$	0.0%
9.04 Country:	\$	0.0%
Countries rated NAIC-3 or below		
9.05 Country:	\$ -	0.0%
9.06 Country:	\$ -	0.0%

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

	Issuer	NAIC	3	4
10.01	SHELL INTERNATIONAL	1	\$ 177,418,795	0.5%
10.02	AMERICAN MOVIL	1	\$ 137,647,489	0.4%
10.03	GE CAPITAL INTL FUNDING	1	\$ 94,138,297	0.2%
10.04	STATOILHYDRO ASA	1	\$ 91,420,961	0.2%
10.05	BP CAPITAL MARKETS	1	\$ 86,898,573	0.2%
10.06	TRANSCANADA PIPELINES	1	\$ 78,465,295	0.2%
10.07	HSBC HOLDINGS	1	\$ 78,310,511	0.2%
10.08	SIEMENS FINANCIERINGSMAT	1	\$ 73,202,410	0.2%
10.09	COMMONWEALTH BANK	1	\$ 73,198,150	0.2%
10.10	TELEFONICA EMISIONES	2	\$ 64,181,022	0.2%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11

11.02	Total admitted assets held in Canadian investments	\$	-	0.0%
11.03	Canadian-currency-denominated investments	\$	-	0.0%
11.04	Canadian-denominated insurance liabilities	\$	-	0.0%
11.05	Unhedged Canadian currency exposure	\$	-	0.0%

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

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?
Yes No

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions		
	Largest three investments with contractual sales restrictions:		
		\$	- 0.0%
12.03		\$	- 0.0%
12.04		\$	- 0.0%
12.05		\$	- 0.0%

13. Amounts and percentages of admitted assets held in the largest ten equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?

Yes [] No [X]

If response to 13.01 is yes, responses are not required for the remainder of Interrogatory 13.

	1	2	3
	Name of Issuer		
13.02	GUARDIAN INVESTOR SERVICES	\$ 823,561,817	2.1%
13.03	FIRST COMMON WEALTH INSURANCE COMPANY	\$ 443,456,590	1.1%
13.04	GUARDIAN INS & ANNUITY CO NY, NY	\$ 310,222,464	0.8%
13.05	ISHARED MSCI EAFE	\$ 220,889,121	0.6%
13.06	BERKSHIRE LIFE INSURANCE CO OF AMERICA	\$ 189,096,958	0.5%
13.07	VICTORY MUTUAL FUNDS	\$ 73,889,308	0.2%
13.08	POWERSHARES	\$ 68,460,290	0.2%
13.09	SPDR GOLD TRUST	\$ 61,471,113	0.2%
13.10	PARK AVENUE LIFE INS COMP	\$ 41,186,135	0.1%
13.11	ISHARES SILVER TRUST	\$ 15,081,895	0.0%

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

14.01. Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 14.01 is yes, responses are not required for the remainder of Interrogatory 14.

	1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities Largest three investments held in nonaffiliated, privately placed equities:	\$ -	0.0%
14.03		\$ -	0.0%
14.04		\$ -	0.0%
14.05		\$ -	0.0%

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

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

Yes [X] No []

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02		\$	0.0%
15.03		\$	0.0%
15.04		\$	0.0%
15.05		\$	0.0%

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

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?
 Yes [] No [X]

If response to 16.01 is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	Type (Residential, Commercial, Agriculture)	2	3
16.02	COMMERCIAL	\$ 195,000,000	0.2%
16.03	COMMERCIAL	\$ 127,625,000	0.2%
16.04	COMMERCIAL	\$ 116,885,000	0.2%
16.05	COMMERCIAL	\$ 113,363,464	0.2%
16.06	COMMERCIAL	\$ 112,498,309	0.1%
16.07	COMMERCIAL	\$ 111,300,000	0.1%
16.08	COMMERCIAL	\$ 110,627,860	0.1%
16.09	COMMERCIAL	\$ 98,504,636	0.1%
16.10	COMMERCIAL	\$ 93,077,172	0.1%
16.11	COMMERCIAL	\$ 85,618,153	0.1%

Amount and percentages of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12	Construction Loans	\$ 82,568,916	0.3%
16.13	Mortgage loans over 90 days past due	\$ -	0.0%
16.14	Mortgage loans in the process of foreclosure	\$ -	0.0%
16.15	Mortgage loans foreclosed	\$ -	0.0%
16.16	Restructured mortgage loans	\$ -	0.0%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as

	Loan-to-Value	Residential		Commercial		Agriculture	
		1	2	3	4	5	6
17.01	above 95%	\$ -	0.0%	\$ -	0.0%	\$ -	0.0%
17.02	91% to 95%	\$ -	0.0%	\$ -	0.1%	\$ -	0.0%
17.03	81% to 90%	\$ -	0.0%	\$ 40,386,223	0.0%	\$ -	0.0%
17.04	71% to 80%	\$ -	0.0%	\$ 56,722,796	0.1%	\$ -	0.0%
17.05	below 70%	\$ -	0.0%	\$ 3,903,466,987	6.8%	\$ -	0.0%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?
 Yes [X] No []

If response to 18.01. is yes, responses are not required for the remainder of Interrogatory 18

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description	1	2	3
18.02			\$	0.0%
18.03			\$	0.0%
18.04			\$	0.0%
18.05			\$	0.0%
18.06			\$	0.0%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans: 0 0.00%

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No []

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loadns:			
Largest three investments held in mezzanine real	\$	-	0.0%
19.03	\$	-	0.0%
19.04	\$	-	0.0%
19.05	\$	-	0.0%

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end		1st Qtr	At End of Each Quarter		3rd Quarter	
	1	2		2nd Quarter	3rd Quarter		
20.01 Securities lending (do not include assets held as collateral for such transactions)	\$	-	0.0%	\$	-	\$	-
20.02 Repurchase agreements	\$	-	0.0%	\$	-	\$	-
20.03 Reverse repurchase agreements	\$	-	0.0%	\$	-	\$	-
20.04 Dollar repurchase agreements	\$	-	0.0%	\$	-	\$	-
20.05 Dollar reverse repurchase agreements	\$	-	0.0%	\$	-	\$	-

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floor:

	Owned		Written			
	1	2	3	4		
21.01 Hedge	\$	-	0.0%	\$	-	0.0%
21.02 Income generation	\$	-	0.0%	\$	-	0.0%
21.03 Other	\$	-	0.0%	\$	-	0.0%

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

	At Year-end		At End of Each Quarter						
	1	2	1st Qtr	2nd Qtr	3rd Qtr				
22.01 Hedging	\$	12,540,911	0.0%	\$	6,976,680	\$	10,440,493	\$	12,188,113
22.02 Income generation	\$	-	0.0%	\$	-	\$	-	\$	-
22.03 Replications	\$	-	0.0%	\$	-	\$	-	\$	-
22.04 Other	\$	-	0.0%	\$	-	\$	-	\$	-

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for future contracts:

	At Year-end		At End of Each Quarter						
	1	2	1st Quarter	2nd Quarter	3rd Quarter				
23.01 Hedging	\$	8,159,950	0.0%	\$	9,988,750	\$	7,772,850	\$	7,795,500
23.02 Income generation	\$	-	0.0%	\$	-	\$	-	\$	-
23.03 Replications	\$	-	0.0%	\$	-	\$	-	\$	-
23.04 Other	\$	-	0.0%	\$	-	\$	-	\$	-

THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

As of December 31, 2017

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Section 3. Summary Investment Schedule

Investment Categories	Gross Investment Holdings*		Admitted Assets as Reported in the Annual Statement			
	Amount	Percentage	Amount	Securities		
				Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 US Treasury Securities	\$ 1,597,534,014	3.405%	\$ 1,597,534,014		\$ 1,597,534,014	3.405%
1.2 US Government agency and corporate obligations (excluding mortgage-backed securities):						
1.21 Issued by US Government Agencies	3,678,572	0.008%	3,678,572		3,678,572	0.008%
1.22 Issued by US Government-sponsored agencies	-	0.00%	-		-	0.000%
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	36,856,331	0.079%	36,856,331		36,856,331	0.079%
1.4 Securities issued by states, territories and possessions and political subdivisions in the US:						
1.41 States, territories and possessions general obligations	390,426,205	0.832%	390,426,205		390,426,205	0.832%
1.42 Political subdivisions of states, territories and possessions political subdivisions general obligations	229,725,568	0.490%	229,725,568		229,725,568	0.490%
1.43 Revenue and assessment obligations	1,619,718,445	3.452%	1,619,718,445		1,619,718,445	3.452%
1.44 Industrial development and similar obligations	6,089,325	0.013%	6,089,325		6,089,325	0.013%
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA		0.00%			-	0.00%
1.512 Issued or guaranteed by FNMA and FHLMC		0.00%			-	0.00%
1.513 All other	-	0.000%	-		-	0.000%
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA		0.000%			-	0.000%
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	16,757,832	0.036%	16,757,832		16,757,832	0.036%
1.523 All other	1,456,799,939	3.105%	1,456,799,939		1,456,799,939	3.105%
2. Other debt and other fixed income securities (excluding short term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	23,082,259,525	49.193%	23,082,259,525		23,082,259,525	49.197%
2.2 Unaffiliated non-U.S. securities (including Canada)	7,007,505,012	14.935%	7,007,505,012		7,007,505,012	14.936%
2.3 Affiliated securities	1,043,744,923	2.224%	1,043,744,923		1,043,744,923	2.225%
3. Equity interests:						
3.1 Investments in mutual funds	143,257,585	0.305%	143,257,585		143,257,585	0.305%
3.2 Preferred stocks:						
3.21 Affiliated	-	0.000%	-		-	0.00%
3.22 Unaffiliated	40,486,681	0.086%	40,486,681		40,486,681	0.086%
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated	-	0.000%	-		-	0.000%
3.32 Unaffiliated	294,659,581	0.628%	294,659,581		294,659,581	0.628%
3.4 Other equity securities:						
3.41 Affiliated	-	0.00%	-		-	0.00%
3.42 Unaffiliated	-	0.000%	-		-	0.000%
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated	-	0.000%	-		-	0.000%
3.52 Unaffiliated	-	0.000%	-		-	0.000%
4. Mortgage loans:						
4.1 Construction and land development	93,317,998	0.199%	93,317,998		93,317,998	0.199%
4.2 Agricultural	-	0.000%	-		-	0.000%
4.3 Single family residential properties	-	0.000%	-		-	0.00%
4.4 Multifamily residential properties	-	0.000%	-		-	0.000%
4.5 Commercial loans	3,378,243,690	7.200%	3,378,243,690		3,378,243,690	7.200%
4.6 Mezzanine real estate loans	-	0.00%	-		-	0.00%
5. Real Estate Investments:						
5.1 Property occupied by company	2,965,563	0.006%	2,965,563		2,965,563	0.006%
5.2 Property held for production of income (includes \$0 of property acquired in satisfaction of debt)	360,971,455	0.769%	360,971,455		360,971,455	0.769%
5.3 Property held for sale (\$0 including property acquired in the satisfaction of debt)	10,263,514	0.022%	10,263,514		10,263,514	0.022%
6. Contract loans	3,405,117,738	7.257%	3,405,117,738		3,405,117,738	7.258%
7. Derivatives	41,050,789	0.087%	41,050,789		41,050,789	0.087%
8. Receivables for securities	26,819,916	0.057%	26,819,916		26,819,916	0.057%
9. Securities Lending (Line 10, Asset Page reinvested collateral)	-	0.000%	-		-	-
10. Cash and short-term investments	821,842,798	1.752%	821,842,798		821,842,798	1.752%
11. Other invested assets	1,811,428,489	3.861%	1,808,240,510		1,808,240,510	3.854%
12. Total Invested Assets	\$46,921,521,488	100.00%	\$46,918,333,509		\$46,918,333,509	100.00%

* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual