

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

Primary Credit Analyst:

Ovadia N Jacob, New York (1) 212-438-2745; ovadiah_jacob@standardandpoors.com

Secondary Credit Analyst:

Matthew Carroll, New York (1) 212-438-3112; matthew_carroll@standardandpoors.com

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

Major Rating Factors

Strengths:

- One of the industry's most productive captive-agent distribution systems, which supports a very strong competition position.
- Extremely strong capitalization.
- Very strong investment management and liquidity.
- Strong operating performance.

Weaknesses:

- Difficult competitive conditions.
- Challenged to increase captive-agent recruiting and maintain productivity.

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency

AA+/Stable/--

Rationale

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

Guardian's capital adequacy is extremely strong and supports the rating, as measured by Standard & Poor's Ratings Services' capital model, which includes incremental asset stress factors. Total adjusted capital (TAC) increased by approximately 15.6% to \$4.9 billion in 2009 as a result of operating earnings, a surplus note issuance, and a rebound in the value of investments in 2009. The company has increased its capital stability by diversifying its total equity exposure and by hedging the downside risk and its effect on capital.

Guardian's operating performance is strong and historically stable, with a statutory pretax return on assets (ROA)--excluding realized capital losses--of 0.59% in 2009, which was consistent with 2008.

Guardian's investment portfolio is strong in its quality and management. The company focuses on producing long-term economic returns for policyholders by optimizing risk-adjusted total returns rather than focusing solely on book yield. In the past few years, the company has focused on developing a comprehensive risk-management program that benefits all aspects of its business profile, including its investment risk exposure. As a result, Guardian's performance has been more stable, which we expect to continue.

Outlook

The stable outlook reflects our expectation that earnings will continue to support the rating and that Guardian's enterprise risk management will continue to evolve with its product offerings. We expect that the group's capital adequacy and investment management will remain rating strengths. Guardian's operating performance likely will remain consistent with historical levels, and its statutory pretax ROA should be more than 50 basis points. We also expect that the investment profile will remain relatively conservative and that investment risks will remain within the scope of the company's overall risk-management framework.

Although we don't expect to, we could lower the ratings, most likely by one notch, if the financial profile were to weaken materially. This could result from either earnings or capitalization declining to a level that does not support the rating.

Competitive Position: Strong General Agency System Is The Foundation

Guardian's competitive position is very strong, based on its product leadership in individual life, DI, group insurance, and retirement products. A highly productive and efficient general agency system also supports the competition position. Guardian is one of the top providers of individual life, individual DI, and group dental insurance. In addition, its average life insurance premium per policy is more than double that of its peers. Guardian has successfully launched new strategies for reaching key target populations. The group's four-year agent retention (34%) is roughly double that of peers and remains significantly higher than the declining industry average.

Table 1

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Selected Statistics					
--Year ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Capital adequacy ratio (%)	AAA	AAA	365.3	292.1	325.5
Statutory earnings adequacy ratio (%)	N.A.	N.A.	175.8	126.3	133.0
Liquidity ratio (%)	N.A.	261.0	277.6	303.0	312.4
Total assets (including separate accounts)	39,918.1	36,263.6	38,486.6	36,769.6	34,417.2
Total premiums and considerations	7,193.6	6,867.5	7,119.3	7,218.6	6,977.1
Pretax income	226.5	222.1	356.7	311.2	334.2
Total adjusted capital (including asset valuation reserve)	4,959.6	4,290.1	4,673.9	4,355.8	3,919.3

N.A.--Not available.

Table 2

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Competitive Position					
--Year ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Total revenue	9,207.1	8,651.7	9,105.4	8,964.9	8,734.6
Total premiums and considerations	7,193.6	6,867.5	7,119.3	7,218.6	6,977.1
Premium revenue increase (%)	4.7	(3.5)	(1.4)	3.5	3.5
Deposits	176.6	128.4	137.2	121.3	138.8
Total premiums, considerations, and deposits	7,370.1	6,995.9	7,256.5	7,339.8	7,115.9

Table 2

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Competitive Position (cont.)					
Premiums, consideration, and deposit revenue increase (%)	5.3	(3.6)	(1.1)	3.1	5.6
Net first-year premiums	1,530.1	1,245.5	1,401.4	1,338.9	1,357.8
Net first-year increase (%)	22.8	(11.1)	4.7	(1.4)	89.5
Net single premiums	1,015.0	744.0	680.5	715.3	615.6
Net single increase (%)	36.4	9.3	(4.9)	16.2	8.7
Separate accounts assets	6,993.8	5,387.9	8,337.8	8,028.2	7,538.2
Increase in separate accounts assets (%)	29.8	(35.4)	3.9	6.5	(2.6)
Major lines					
Individual life	2,972.7	2,693.1	2,573.3	2,511.1	2,418.7
Individual annuities	966.4	530.6	723.1	781.9	632.3
Group life	296.1	315.3	307.6	287.9	269.8
Group annuities	318.3	433.4	500.7	467.9	493.8
Group accident and health	2,638.0	2,890.1	3,010.3	3,165.6	3,156.3
Individual accident and health	2.1	5.0	4.2	4.6	6.1
Aggregate of all other	0.0	0.0	(0.0)	(0.3)	(0.0)
Deposits	176.6	128.4	137.2	121.3	138.8

Individual life

Guardian is one of the top four large mutual companies selling participating life insurance through a career agency system--a product Standard & Poor's considers to be the highest quality, most stable, and creditworthy life insurance product. Guardian's whole life insurance sales totaled \$194 million in 2009, up 5% from 2008. Total life insurance sales increased an impressive 15% relative to 2009, which is in contrast to an industry that saw double-digit sales declines in 2009. Guardian targets sophisticated, wealthy customers; small business owners; and professionals such as doctors. As a result, Guardian has the highest average face amount (\$673,000) among its peers'. The company also has strong policyholder persistency, which was higher than that of its peer group.

In an attempt to increase sales growth in a relatively flat life insurance market, Guardian is aggressively targeting the small business market by tailoring products, bundles of products and services, and marketing campaigns to the needs of the small business owner. To complement this effort, the company is providing advanced market training to its agents and leveraging its "Living Balance Sheet," a Web-based application that provides agents with a better understanding of their clients' financial needs. This application guides agents through the sales process in one single platform and consolidates policyholder financial information. We expect the software's effect on sales to be gradual as the number of subscribers increase and the application's capabilities expand. The intent of this tool is to increase sales and enhance agent retention.

The company offers a wide variety of traditional whole life, term, universal life (UL), and variable life products, as well as supplementary asset accumulation products such as annuities and mutual funds. The company also offers long-term care and disability products.

Guardian is encouraging field recruiting by increasing incentives, including monetary long-term compensation, agent recognition, and benefit plans, as well as adding regional recruiting specialists and middle management development support. The Living Balance Sheet helps to retain agents by providing them with ways to enhance existing client

relationships and build new leads. Guardian is facing the challenge of increasing the productivity of new, less-experienced agents. The company continues to develop agent training and is expanding its distribution capabilities and market presence in the small-business market.

Annuities

Guardian manages its annuity business somewhat conservatively. It avoids the risks that large variable annuity writers have experienced, but it also lacks economies of scale because it primarily focuses on participating life insurance. Annuity sales increased 87% in 2009 to \$952 million from \$510 million in 2008. Guardian has implemented a dynamic delta hedging program that mitigates equity economic risk of the guaranteed minimum withdrawal benefit (GMWB) rider. Guardian also uses a tail interest rate risk hedging program (a hedge against particularly unlikely interest rate events) to reduce statutory capital volatility. As part of its risk management, Guardian closely monitors the hedging program and performs stress tests at least quarterly. To augment its hedging program, the company has reinsured a large percentage of its in-force GMWB risk, resulting in both a transfer of risk to the reinsurance company and a smoothing of Guardian's statutory earnings.

Group products

Guardian's group product offering has a very strong competitive position through long-term disability (LTD), dental, life, worksite, and medical products. The company differentiates itself by focusing on less competitive, smaller plans and by offering stronger margins. Group non-medical sales totaled \$436 million in 2009, a decrease of about 13% from the prior year. Group medical sales, which Guardian is managing down (excluding joint ventures), decreased by 44% year over year. Dental sales have risen more moderately as Guardian's dental network expands despite increasingly aggressive competition from other large players--especially in the large case market (100-plus lives). Group life and disability sales declined year over year, and the base remains small compared with group dental products. Guardian has developed a competitive advantage through its service capability, the size of its network coverage, and the broad product suite it offers to support one-stop shopping. The company couples its array of products with additional features, such as employee-assistance plans, which it outsources. A very strong service platform and solid ties to broker distribution support its medical products. Guardian is the market-leader in the group dental sector. Its group dental product is offered at more than 100,000 locations and is one of the largest distribution platforms in the U.S. The group life and disability products are also market leaders--maintaining a top 10 position--although they face stiff competition stemming from aggressive pricing.

Individual disability and long-term care

Guardian offers individual DI through its nonrated subsidiary, Berkshire Life Insurance Co. of America (BLICOA), as a result of its 2001 merger with Guardian and Guardian Career system. Individual DI sales in 2009 decreased 2% to \$63 million, with an additional \$13 million of long-term care (LTC) sales and \$2 million of multilife sales. The individual DI market is growing relatively slowly, and most growth comes from taking market share from competitors. Guardian continues to develop its multilife product by increasing its distribution capabilities and improving its products.

The company introduced an LTC product in 2004, and it reinsures 90% of the risk of the product. Guardian continues to refine its internal process and systems to support risk management for LTC. Guardian views individual disability and LTC as supplementary products to its traditional life insurance. The profitability of DI and LTC contribute to the underlying cash value returns on the company's core life insurance products. Therefore, they enhance traditional whole life products' competitive position.

Historical

Guardian's core competitive advantage is its highly efficient national general agency system. The system is highly entrepreneurial, with individual general agents who set their own strategies and run their own businesses, supported by Guardian's high-quality products, marketing, technology, and selling system. Guardian sells some products through independent producers, but contracting is done almost exclusively through the company's general agents to avoid compromising the strong relationship. The company expects its general agents to achieve annual sales goals and to earn maximum compensation levels, and it supports the general agents through several customized marketing programs.

Guardian has built its franchise on mutuality and its participating whole life product. Through its long-term investment strategy of balancing fixed-income and equity investments, the company maintains one of the most competitive dividends in the industry. Guardian offers a full spectrum of life products to meet all of the protection needs of its high net-worth base. Guardian's 2001 merger with BLICOA added 73 new field representatives and, more importantly, increased scale in the individual DI arena. The larger scale allows the company to invest more in underwriting and claims investigation functions, as well as to use the best products and practices from the two predecessor companies. Unlike life sales, about 60% of individual DI sales come through the brokerage channel.

Guardian's group insurance business was historically concentrated in indemnity major medical and, more recently, in managed care. The company is beginning to de-emphasize its group medical business. However, Guardian has made a concerted effort to expand its life, DI, and dental lines--making the company a full-service provider with a decreasing proportion of sales coming from the more volatile medical line. To this end, Guardian has exited the medical business in 24 states in recent years, and it is focusing on select markets where it believes it can be successful.

The retirement product lines focus on annuity and mutual fund manufacturing and distribution through Guardian's subsidiary broker-dealer, Park Avenue Securities, for Guardian-registered representatives, and through Guardian Investor Services for distribution to outside broker-dealers. In 2006, the company acquired a majority interest in RS Investments, which complements its asset management capabilities.

Prospective

Standard & Poor's expects that growth in Guardian's traditional life insurance sales will be in line with that of its mutual company peers in 2010 and that it likely will outpace the general life insurance industry average. As competition declines and other variable annuity writers scale back, Guardian likely will generate variable annuity sales growth in 2010. Fixed annuity sales could decline in 2010 as opportunities for enhanced spreads decrease. The company may struggle to increase group sales, given extremely competitive pricing in this market, as participants shift their focus from higher-risk products. We expect Guardian to continue to increase its individual DI sales.

Management And Corporate Strategy: Expanding Strategy To Target Small Businesses

Standard & Poor's believes Guardian's management and corporate strategy is favorable to the rating. Guardian's strategy is built on its ability to leverage its mutual ownership structure into a competitive advantage through its highly effective captive distribution system. Guardian is seeking to expand its scope by targeting the protection and wealth-accumulation needs of small business owners, although it faces some sizable competition from similar product offerings.

Management is focusing on the affluent small business market segment, where Guardian already has a strong market position. The company is developing protection products with business owners in mind, and its broader array of accumulation and health-related products should provide a competitive product set for penetrating the small business market segment. Guardian is also upgrading its current products by adding new and more attractive features to remain competitive in the market.

Guardian acquired eMoney--as a way to strengthen its Web-based selling system--and American Financial Systems, a TPA, to enter the executive benefit segment.

Guardian targets a broad spectrum of policyholders, including a large share of high-net-worth customers, by communicating the value to policy holders of all company earnings supporting the policyholder dividends and capital growth, rather than being diverted to shareholder dividends. The company is committed to creating actual economic value for policyholders--not just creating the appearance of value, which can be achieved through various financial reporting practices. Guardian's history of higher-than-average policyholder dividends and a strong capital base supports this objective.

One measure of the company's success in communicating its message is its per-policy life premium, which is 68% greater than its peers'. The company does not offer aggressive UL product features and it believes its conservatism will be rewarded over time, which is a luxury many public companies do not have because of shareholder expectations.

The company's conservatism has not translated into inaction. Guardian recognizes that its customers are seeking wealth-accumulation products to complement their protection products, and the company responded by introducing a guaranteed minimum withdrawal benefit (GMWB) rider that is conservatively structured and dynamically hedged. The demutualization of many other major players has left a competitive niche for Guardian and other companies that have remained committed to policyholder value and participating permanent life insurance products. Standard & Poor's has some concern about the productivity of Guardian's field force because new agent recruiting struggled in 2005, and new, less-experienced agents require more time and training to become fully productive. To address this, Guardian increased its agent recruiting requirements and reduced the number of less-productive agents.

Guardian's cornerstone is its captive agency force, which we view as a key strength to the rating. The company has devoted considerable energy to improving its marketing capability by implementing a program to help general agencies modernize their marketing approaches through technology and enhanced training. The company has developed new incentives to promote increased agent recruiting, which will be central to achieving growth.

Guardian has invested in building its asset accumulation businesses to serve all of the financial needs of its high-net-worth customer base. Results have been mixed. The company has recruited new investment management talent, and preliminary results are encouraging. In the 1970s Guardian established a mutual fund complex, and then, in the 1990s, Guardian established a full-service broker-dealer. The company acquired a majority interest in a small asset manager, RS Investments, increased its scale in assets under management by about \$12 billion, rebranded its Park Avenue Funds, and increased the number of higher performing funds--specifically in small- and mid-cap equities.

Operational management

Guardian has reorganized individual product distribution under one executive, which is a departure from its historical organizational structure that aligned distribution with each product-focused profit center.

Guardian field agents are the primary producers for the company, but group and retirement wholesalers play a critical role as well. BLICOA focuses on individual DI, but also provides brokered life insurance. Guardian general agents have a brokerage general agency contract with BLICOA to build loyalty and reduce internal competition.

Financial management

The company's risk tolerance is conservative, both in product design and investment management. Guardian's avoidance of aggressive UL structures at the cost of sales is the clearest example of this philosophy. This approach helped the company avoid the poor sales practices that affected many large companies in the mid-1990s. Guardian holds substantial reserves in excess of many of the regulatory requirements, which reflects the company's actuarial conservatism and the importance it places on protecting policyholder value.

Investment risk tolerance is generally conservative. Guardian manages investment risk on a total return basis to maximize economic returns over accounting returns, unlike many large public competitors that favor near-term consistency for shareholders over long-term returns for policyholders. Although the company has an above-average industry exposure to lower-quality investment-grade bonds, Guardian's total equity risk, including public, private, and real estate equity investments, is lower than its peers'. Furthermore, Guardian's equity investments are predominately placed in well-diversified public equities rather than alternative equity investments. The company seeks to further diversify its total equity exposure by potentially increasing its investment in real estate equity. Guardian manages its general account on a duration-neutral basis, meaning it does not take material overt duration mismatch risk across its business lines. Furthermore, Guardian manages its more duration-sensitive life and annuity portfolio on a key rate duration-matched basis, with minimal convexity risk. In the past, equity exposure had caused capital volatility. Therefore, the company now uses a hedging strategy to limit the downside capital effect of its long-term investment strategy. Guardian uses the hedging program to maintain conservative capitalization.

Enterprise Risk Management: Comprehensive Approach Reduces Potential Volatility

Guardian has an adequate enterprise risk management (ERM) program, and we view many aspects of the process as strong. Guardian has well-defined risk limits for both assets and liabilities that are enforced through a series of risk committees, whose members include senior management. The company organizes its ERM, both in scope and depth, around a formal, multidisciplinary structure, and it's clearly a part of all significant decision-making. The overarching framework is evident in all aspects of the business, including product design, investments, asset/liability management, operations, security, and capitalization. The company's mutual status allows it to prudently build products around fully thought out risk management processes rather than rush to meet market demands. This is not to say the company does not take informed risks. Past issues, such as the company's overinvestment in technology common stocks in the late 1990s, have improved its current risk management practices. Conservatism is a central attribute of the company's risk culture.

The central pillar of Guardian's profile is its whole life product set, although the company does offer individual disability, dental products, and some equity-based products, including annuities. Guardian offers products based on consumer and distribution needs, its own risk tolerances, and risk-adjusted returns. Guardian's investment management is very strong. Insurance risks are moderate except for LTC, which is 90% reinsured, and living benefit annuity products, which are conservatively structured and supported by reinsurance. Guardian manages the remaining risk through a hedging program. The company takes a comprehensive approach to operational risks,

from both a security and a business continuation perspective. Guardian also stays involved in national and governmental groups. The risk profile is stable, and we don't expect it to change in the near term.

Guardian's risk-management culture is strong and permeates the organization at all levels. The tone is collaborative rather than contentious, although appropriate tension, in our view, exists among various constituents such as marketing, actuarial, and investments. The approach starts at the top and is managed through an overarching risk management committee with three risk subcommittees. reporting to it. These subcommittees (product risk, compliance, and operational risk) have functioned under separate charters since 2003. The subcommittees allow appropriate delegation, and Guardian is adding more subcommittees, including ERM subcommittees at BLICOA, individual life, retirement, and the group businesses. The risk culture has developed an appropriate feedback loop to manage risks at various levels. All employees must follow and certify compliance with a code of conduct, which is administered electronically.

Credit risk is tightly controlled, with concentration exposures managed to a hard limit on a daily basis. The company leverages its mutuality by managing investments on a long-term economic basis rather than on short-term accounting results, as many public companies feel pressured to do. Although accounting results may exhibit some volatility, true economic risk should be within the tolerance for the rating. The company maintains a highly disciplined approach to credit risk management, employing fundamental analysis across the credit spectrum. The company continues to hold above-average 'BBB' exposure--41% of total bonds. Interest rate risk management in the form of duration matching and convexity monitoring are referred to in the financial risk tolerance section above.

The company's investment allocation to unaffiliated equities is similar to the industry average and slightly lower than that of its large mutual peers. Unlike the industry, Guardian manages its equity exposure and hedges it in aggregate to minimize capital loss exposure. Exposure consists of direct equity investments such as common stock, private and real estate equities, and affiliated stock, along with indirect exposures, such as those associated with the company's living benefit riders. This aggregate equity market hedging strategy served Guardian well through the equity downturns in 2008 and early 2009, preserving capital during a time when the industry saw material investment losses on equity holdings.

Guardian structures its variable annuity living benefit rider with bonus incentives to delay withdrawals, fixed-investment allocations with limited investment choices, and automatic rebalancing. The company employs a dynamic hedging program covering delta, rho, vega, and gamma risk. The hedging program was designed in consultation with a leading actuarial consulting firm and a large investment bank, known for its long-dated hedging expertise. Although the company has developed a state-of-the-art hedging program, Guardian chose to reinsure a large percentage of its GMWB exposure once it began selling the product.

Guardian's product design process is conservative and rigorous, and the company brings all appropriate disciplines to bear, such as financial, actuarial, investments, legal, and operational. Product designs are conservative and the company fully vets more aggressive features before adopting them. Guardian is predominantly a life insurance company with strong bias toward traditional whole life. The company is fundamentally opposed to aggressive secondary guarantees, and its low UL sales reflect that conviction. Other product lines such as group medical, individual disability, and dental are also conservatively managed. Guardian sacrifices market share and sales to avoid aggressive competitor offerings, such as multiyear rate guarantees. The company consistently maintains higher-than-required reserves as part of its conservative positioning.

The operational risk committee collaborates on all initiatives considered integral to the development of all systems, products, and functions. The company is involved in both governmental and national security groups to develop best practices in operational risk management. The company has a significant corporate presence in lower Manhattan and has built redundant remote offices to minimize business disruptions. Guardian conducts periodic shutdowns to test its business continuation systems and has not experienced any significant issues. The company establishes validation standards to quantitatively measure the test results. Data security is well managed, and viruses have been contained with no significant impact to business operations. Physical security at the Manhattan office is on par with more secure New York City businesses.

Guardian uses a wide array of risk models to manage its risk. These models include proprietary and third-party platforms for asset-liability, portfolio risk, structured finance and credit risk management, such as Milliman MG-ALFA, Yield Book, Trepp, Intex, and Barclays POINT. Investment risk management evaluates stress tests, value at risk, cash flow testing models, key rate duration and convexity, as well as a hedge program modeled after Milliman's MG Hedge system to reduce aggregate equity exposure and manage higher-risk products like annuities with living benefits. The investment department works closely with the actuarial department to model company risks.

Risk management is ingrained in Guardian's profile and plays a clear role in the company's strategic planning. The company uses ERM to mitigate downside economic risk and to support informed risk-taking in its product development. As a mutual, the company is content to grow mostly organically, and Standard & Poor's does not expect the company to make any large acquisitions. We expect any small acquisitions to conform to Guardian's current risk profile, and we expect that the company will manage them within existing risk tolerances. We also expect the company's broad approach to risk management to continue to develop and improve.

Guardian is clearly committed to a comprehensive ERM process that balances its conservatism and mutuality while also developing new products under the evolving risk-management framework. In 2006, Guardian developed a comprehensive economic capital model. The economic capital model calculates the required capital a company needs on a stochastic basis. Guardian continues to explore ways to use this modeling to refine its capital attribution.

Accounting

We analyzed Guardian's generally accepted accounting principles (GAAP) and NAIC statutory financial statements as of Dec. 31, 2009. In our view, Guardian has a history of conservative reserving practices and has been an active participant in reserve standard setting. Adjusted GAAP income reflects adjustments for deferred acquisition cost changes associated with capital gains, future margin assumptions, and policyholder dividends.

Operating Performance: Solid Results And Improved Consistency

Guardian's operating performance remains strong, with a statutory pretax ROA of 0.59% in 2009, excluding realized capital losses. Consolidated statutory pretax operating income totaled \$250 million in 2009, compared with \$229 million in 2008. GAAP adjusted pretax operating income increased to \$348 million in 2009 from \$325 million the previous year. Earnings from life insurance products were slightly lower as a result of less favorable mortality, though earnings in the annuity segment improved following losses in 2008.

Guardian's expenses are stable and in line with its past expenses, though they're higher relative to peers'. The

company's general expense ratio was 14.4% in 2009, compared with 14.8% in 2008. Guardian's peers include deposit-type funds and single-premium, bank-owned life insurance and company-owned life insurance, both of which have very low expense ratios in their total premium calculations. Guardian does not offer these products, so it's difficult to compare expense ratios with those of its peers.

Table 3

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Summary Operating Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Pretax income	226.5	222.1	356.7	311.2	334.2
Net income	37.6	402.2	312.0	396.2	396.8
Statutory earnings adequacy ratio (%)	N.A.	N.A.	175.8	126.3	133.0
Return on revenue (%)	2.46	2.57	3.92	3.47	3.83
Return on assets (%)	0.59	0.59	0.95	0.87	0.99
Pretax statutory rate of return on capital (%)	N.A.	N.A.	10.79	8.93	11.69

N.A.--Not available.

Table 4

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Operating Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
General expenses	1,104.7	1,086.5	1,105.8	1,067.1	1,013.4
General expense ratio (%)	14.4	14.8	14.9	14.8	14.6
Expense ratio (%)	20.0	19.8	20.6	19.5	19.0
Unit expenses (in whole dollars)	267.3	236.4	208.9	226.8	180.7
General expenses as a percentage of total assets	2.8	3.0	2.9	2.9	2.9
Commission ratio (%)	4.1	3.9	4.1	4.1	4.3
Lapse ratio (ordinary only) (%)	6.4	6.1	5.9	5.5	6.1
Mortality ratio (%)	92.0	122.5	207.7	237.6	227.4
Investment spread (%)	2.4	2.4	2.5	2.5	2.5
Accident and health					
Loss ratio (%)	72.3	73.5	74.0	73.4	76.0
Expense ratio (%)	25.8	25.0	24.4	23.2	21.9
Combined ratio (%)	98.1	98.5	98.4	96.5	97.9

Prospective

Standard & Poor's expects Guardian's consistency in the past two years to continue in 2010, with moderate improvements in pretax GAAP operating income as some of the asset management earnings return.

Investments: Diversification Has Improved Profile And Reduced Volatility

We consider Guardian's investment portfolio to be strong based on its quality and management. Unlike many of its demutualized peers, Guardian has an investment philosophy based on risk-adjusted total returns trading on relative

value rather than on managing-to-book yield. This approach emphasizes the company's long-term strategy of maximizing economic returns rather than accounting income, and investment professional compensation is aligned with this goal.

Table 5

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Investment Statistics					
--Year ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Net investment income	1,649.5	1,568.3	1,549.6	1,461.1	1,378.5
Total invested assets	30,751.4	28,674.1	28,252.5	26,754.8	24,943.2
Net realized capital gains	(122.6)	124.1	75.7	121.3	98.8
Asset risk to invested assets (%)	N.A.	N.A.	7.3	8.3	6.6
High-risk assets to total invested assets (%)	12.4	11.5	15.0	13.9	13.5
Net investment yield (%)	5.55	5.51	5.63	5.65	5.71
Five-year realized capital gains to invested assets (%)	0.20	0.32	0.55	0.51	0.31
Portfolio composition					
Cash, cash equivalents, and short-term investments (%)	0.8	3.9	0.5	0.5	0.3
Bonds (%)	68.8	61.3	60.8	61.7	64.8
Mortgage-backed securities (%)	2.1	5.7	6.4	6.5	5.3
Mortgages (%)	10.9	12.1	11.0	10.2	9.7
Policy loans (%)	8.4	8.4	7.7	7.3	7.2
Stocks (%)	5.1	4.8	9.7	11.1	10.3
Real estate (%)	0.6	0.6	0.5	0.5	0.5
Other (%)	3.4	3.1	3.4	2.2	1.9

N.A.--Not available.

Prior to 2003, Guardian's unhedged and significantly more concentrated public equity exposure led to higher-than-average volatility. Current diversification and the aggregated equity hedge program have reduced the potential for similar volatility. Guardian maintains an about average investment allocation in equities relative to the overall industry and invests less in equities than large mutual peers. Historically, higher public equity exposure with concentrations in technology led to a high degree of capital volatility. However, the company now has well-defined exposure limits and employs a dynamic hedging strategy to minimize downside risk and to maintain a target capital ratio. Guardian has hedged its public equity portfolio to protect a high minimum capital ratio. More than 90% of the bond portfolio is rated investment grade, which is higher than peer averages. The quality of the portfolio continues to improve, though it was still heavily weighted toward 'BBB' rated securities (41.1%) as of year-end 2009, compared with 37.9% at the end of 2008.

Liquidity: Very Strong And Stable

Guardian's liquidity is very strong. Guardian maintains a highly liquid investment portfolio, although its investment strategy of potentially expanding its exposure in real estate equity, commercial mortgages, and private placements will marginally reduce its asset liquidity. Furthermore, the overall liability profile is very stable, with a large block in participating whole life policies. This combination of highly liquid assets and liabilities that are less likely to

surrender lends strength to Guardian's overall liquidity profile. Exposure to fixed annuities is low but has risen modestly in recent years and does increase the company's liquidity need somewhat.

Table 6

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Liquidity And Reserves Statistics					
--Year ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Allocation of reserves					
Individual life	82.5	81.6	80.9	79.5	78.6
Group life	0.9	1.0	1.0	1.0	1.0
Individual annuities	7.1	7.6	8.3	9.6	10.3
Group annuities (including guaranteed investment contracts)	0.4	0.5	0.5	0.5	0.5
Accident and health	3.1	3.3	3.4	3.4	3.3
Other	5.9	6.1	5.8	6.0	6.3
Liquidity ratio (%)	N.A.	N.A.	277.6	303.0	312.4

N.A.--Not available.

Capitalization: Hedging Strategy Protects Extremely Strong Capital

We view capitalization as a strength to the rating. Guardian's capital adequacy, as measured in part based on our insurance risk-based capital model, which includes incremental asset stress factors, is redundant at the current rating level. In 2009, TAC increased to \$4.9 billion from \$4.3 billion because of organic earnings and a surplus note issuance. In addition, Guardian has a hedging program, which provided a floor for its capital at a 15% capital-to-assets ratio. Although capital declined 8% from 2007 to 2008, we believe that without the hedging program's protection, the decline would have been larger and in line with similarly rated peers' losses.

The company's generally conservative actuarial reserving practices add an additional level of conservatism to Guardian's already robust capital. In addition to the overall level of capitalization, the quality of capital is very strong with only \$396 million in surplus notes.

Table 7

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Capitalization Statistics					
--Year ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
Total assets	39,918.1	36,263.6	38,486.6	36,769.6	34,417.2
General account assets	32,924.3	30,875.7	30,148.8	28,741.5	26,879.1
Total liabilities excluding separate accounts (excluding asset valuation reserve)	28,109.1	26,968.7	25,835.4	24,725.4	23,276.9
Total adjusted capital (including asset valuation reserve)	4,959.6	4,290.1	4,673.9	4,355.8	3,919.3
Unrealized capital gains	290.8	(696.6)	25.3	115.1	38.3
Capital adequacy ratio (%)	N.A.	N.A.	365.3	292.1	325.5
Company action level to NAIC risk-based capital ratio (%)	465.2	426.0	437.0	400.2	400.9
Assets risk to total adjusted capital ratio (%)	N.A.	N.A.	44.5	51.1	42.5

Table 7

Guardian Life Insurance Co. of America And Guardian Insurance & Annuity Co./Capitalization Statistics (cont.)					
High-risk assets to total adjusted capital ratio (%)	77.0	76.8	90.9	85.4	85.6
Surplus from operating earnings after dividends (%)	140.9	208.8	146.0	88.8	61.8
Stockholder dividends/net income	0.8	0.7	0.8	1.5	19.7
Net premiums to gross premiums (%)	92.9	92.7	92.6	93.5	93.3
Net reserves to gross reserves (%)*	91.2	91.4	91.4	91.5	91.6
Stockholders' dividends	0.0	0.0	0.0	13.1	0.0
Stockholders' dividends to net operating income (%)	0.0	0.0	0.0	4.8	0.0

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

Prospective

We expect that Guardian's capital will remain extremely strong given the company's very strong investment risk-management practices and conservative investment portfolio. We expect that Guardian will continue to execute well on its stated risk tolerances.

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

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

Ratings Detail (As Of July 8, 2010)*

Operating Companies Covered By This Report

Guardian Life Insurance Co. of America

Financial Strength Rating

Local Currency

AA+/Stable/--

Counterparty Credit Rating

Local Currency

AA+/Stable/--

Subordinated (1 Issue)

AA-

Guardian Insurance & Annuity Co.

Financial Strength Rating

Local Currency

AA+/Stable/--

Issuer Credit Rating

Local Currency

AA+/Stable/--

Domicile

New York

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

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