

## Guardian Life Insurance Co. of America And Core Operating Subsidiaries

### Financial Strength Rating

*Local Currency*  
AA+/Stable/—

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### 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.
- Very strong operating performance.

#### Weaknesses:

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

### Rationale

The insurer financial strength ratings on Guardian Life Insurance Co. of America, Guardian Insurance & Annuity Co., and Berkshire Life Insurance Co. of America (collectively referred to as 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, which is enhanced by its very strong agent retention levels, bolsters its competitive position and its leadership in the individual life and disability insurance (DI) markets. The company also offers group insurance products, and its very strong position in the group dental insurance market makes it a top provider in that segment. In addition, Guardian offers wealth accumulation products through its retirement operating

business segment. It also 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, as measured by Standard & Poor's Ratings Services' capital model, and is a strength to the ratings. The company's total adjusted capital increased by approximately 8.5% to \$5.4 billion in 2010 as a result of operating earnings and improved credit and equity market performance. The company increased its capital stability by diversifying its total equity exposure and hedging the downside risk and the effect on capital.

Guardian's operating performance is very strong and historically stable: Its statutory pretax return on assets (ROA), excluding realized capital gains and losses, was 0.91% in 2010, an improvement from 0.71% in 2009 and 0.73% in 2008. This improvement reflects the company's increased investment income and favorable experience in most of its lines of business.

Guardian's investment portfolio is strong in 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 ratings and that the company's risk-adjusted capitalization will remain a rating strength. We expect that Guardian's operating performance will remain consistent with historical levels, and the company's statutory pretax ROA will continue to be more than 70 basis points. We also expect that Guardian's investment profile will remain relatively conservative and the 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 on Guardian, most likely by one rating notch, if its financial profile were to weaken materially. This could result from either earnings or capitalization declining to a level that doesn't support the ratings.

### ***Competitive Position: A Very Strong Leader In Multiple Insurance Sectors***

Guardian's competitive position is very strong, based on its product leadership in the individual life, individual disability, group insurance, and retirement products. A highly productive and efficient general agency system also supports the company's competition position. Guardian is one of the top providers of individual life, individual disability, 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 company's four-year agent retention rate is roughly double that of its peers' and remains significantly higher than the declining industry average.

**Guardian Life Insurance Co. of America And Core Operating Subsidiaries**

Table 1

<b>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Selected Statistics</b>					
	<b>Year ended Dec. 31</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Capital adequacy ratio (%)	AAA	AAA	AAA	365.3	292.1
Statutory earnings adequacy ratio (%)	N.A.	N.A.	N.A.	175.8	126.3
Liquidity ratio (%)	311.8	279.9	261.0	277.6	303.0
Total assets (including separate accounts) (mil. \$)*	45,330.3	39,918.1	36,263.6	38,486.6	36,769.6
Total premiums and considerations (mil. \$)*	7,518.0	7,193.6	6,867.5	7,119.3	7,218.6
Pretax income (mil. \$)*	398.2	226.5	222.1	356.7	311.2
Total adjusted capital (including asset valuation reserve) (mil. \$)	5,381.0	4,959.6	4,290.1	4,673.9	4,355.8

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years. N.A.—Not available.

Table 2

<b>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Competitive Position</b>					
	<b>Year ended Dec. 31</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total revenue (mil. \$)*	9,850.5	9,207.1	8,651.7	9,105.4	8,964.9
Total premiums and considerations (mil. \$)*	7,518.0	7,193.6	6,867.5	7,119.3	7,218.6
Premium revenue increase (%)	4.5	4.7	(3.5)	(1.4)	3.5
Deposits (mil. \$)*	109.5	176.6	128.4	137.2	121.3
Total premiums, considerations, and deposits (mil. \$)*	7,627.4	7,370.1	6,995.9	7,256.5	7,339.8
Premiums, consideration, and deposit revenue increase (%)	3.5	5.3	(3.6)	(1.1)	3.1
Net first-year premiums (mil. \$)*	1,474.8	1,530.1	1,245.5	1,401.4	1,338.9
Net first-year increase (%)	(3.6)	22.8	(11.1)	4.7	(1.4)
Net single premiums (mil. \$)*	1,014.8	1,015.0	744.0	680.5	715.3
Net single increase (%)	(0.0)	36.4	9.3	(4.9)	16.2
Separate accounts assets (mil. \$)*	8,084.2	6,993.8	5,387.9	8,337.8	8,028.2
Increase in separate accounts assets (%)	15.6	29.8	(35.4)	3.9	6.5
<b>Major lines (mil. \$)*</b>					
Individual life	3,089.6	2,972.7	2,693.1	2,573.3	2,511.1
Individual annuities	812.9	966.4	530.6	723.1	781.9
Group life	305.4	296.1	315.3	307.6	287.9
Group annuities	317.9	318.3	433.4	500.7	467.9
Group accident and health	2,532.5	2,638.0	2,890.1	3,010.3	3,165.6
Individual accident and health	459.7	2.1	5.0	4.2	4.6
Aggregate of all other	0.0	0.0	0.0	(0.0)	(0.3)
Deposits	109.5	176.6	128.4	137.2	121.3

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years.

### ***Individual life***

Guardian is one of the top four large mutual insurance companies selling participating life insurance through a career agency system. Standard & Poor's considers participating life insurance to be the highest quality, most stable, and creditworthy life insurance product.

Guardian's whole life insurance sales, which constituted 77% of its life insurance sales, totaled \$211 million in 2010. However, this 10% increase from 2009 was below the industry's average of 18%. Nonetheless, Guardian's total life insurance sales increased 7% in 2010, which compared favorably with the industry's average of approximately 4%. Guardian targets sophisticated, wealthy customers; small business owners; and professionals, such as doctors. As a result, Guardian consistently has the highest average life policy face amount (\$659,000) 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 its products, product and service bundles, and marketing campaigns to meet the small business owner's needs. 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 company met its 5% agent growth target for 2010 and is targeting an additional 5% growth in 2011. Guardian continues to face the challenge of increasing the productivity of its new, less-experienced agents. The company continues to develop its agent training program and is expanding its distribution capabilities and market presence in the small business market.

### ***Annuities***

Guardian manages its annuity business somewhat conservatively. It historically has avoided risks that large variable annuity writers have experienced, with much of the business reinsured. However, its latest product design is more competitive relative to earlier versions and currently isn't reinsured. The business also lacks economies of scale, because of the company's primary focus on participating whole life insurance. Guardian's annuity sales decreased 16% in 2010 to \$802 million from \$952 million in 2009, which was a dramatic 87% increase over \$510 million in 2008.

Guardian has implemented a dynamic delta hedging program that mitigates the 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 process, 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 (reduction of the amount of year-to-year fluctuations) of Guardian's statutory earnings.

***Group insurance products***

Guardian's group insurance 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 resulting in stronger margins. Its group nonmedical sales totaled \$528 million in 2010, an increase of about 21% from the previous year, primarily reflecting a 25% increase in dental sales. Guardian exited the group medical insurance market in early 2011. The company's group life and AD&D (accidental death and dismemberment) sales increased a very strong 20% in 2010, while group LTD sales increased 6%.

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. The company's very strong service platform and solid ties to broker distribution support its medical products. Guardian is the market leader in the group dental sector. The company's group dental product is offered at more than 100,000 locations and is one of the largest distribution platforms in the U.S. Its group life and disability products are also market leaders—each 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 subsidiary, Berkshire Life Insurance Co. of America (BLICOA), as a result of BLICOA's merger with Guardian. Guardian's individual DI sales decreased 5% to \$60 million in 2010, which includes \$12 million of long-term care (LTC) sales and \$2 million of multilife sales.

The individual DI market is very competitive and is growing relatively slowly. Most of Guardian's growth in this market comes from it taking market share from its competitors. Guardian continues to develop its multilife product by increasing its distribution capabilities and improving its products. The company views its individual disability product as supplementary to its traditional life insurance products. The individual DI segments profitability contributes to the underlying cash value returns on the company's core life insurance products, thereby enhancing the traditional whole life insurance products' competitive position. Guardian is planning to exit the LTC market in late 2011 or early 2012.

***Historical***

Guardian's core competitive advantage is its highly efficient national general agency system. The system is highly entrepreneurial: The individual general agents 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 meet 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

insurance products to meet its high net-worth base's protection needs. Unlike its life insurance sales, Guardian writes about 60% of its individual DI sales through the brokerage channel.

Guardian's group insurance business was historically concentrated in indemnity major medical and, more recently, in managed care. However, Guardian has made a concerted effort to expand its life, individual disability, and dental product lines. To this end, Guardian exited the group medical insurance business in early 2011.

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

### ***Prospective***

For 2011, Standard & Poor's expects that Guardian's traditional life insurance sales will increase in line with that of its mutual insurance company peers' and the growth will likely outpace the general life insurance industry average. As competition declines and other variable annuity writers scale back, Guardian will likely generate variable annuity sales growth in 2011. The company's fixed annuity sales could decline in 2011 as opportunities for enhanced spreads decrease. Guardian may struggle to increase its group insurance sales, given its very strong dental, life, and AD&D insurance sales in 2010 and the extremely competitive pricing conditions in these markets. We expect that Guardian will continue to increase its individual DI sales, including sales growth in its multilife DI product.

### ***Management And Corporate Strategy: A Conservative Approach Boosts Competitive Advantage***

Standard & Poor's believes that Guardian's management and corporate strategy is favorable for the ratings. Guardian's strategy is built on its ability to leverage its mutual insurance company ownership structure into a competitive advantage through its highly effective 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 competitors with 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 small business owners in mind. The broader array of wealth accumulation- and health-related products should provide a competitive product set for penetrating this market. Guardian is also upgrading its current products by adding new and more attractive features to remain competitive in the market.

Guardian targets a broad spectrum of policyholders, including a large share of high-net-worth customers. It does this by communicating to policyholders the value of it using all company earnings to support policyholder dividends and capital growth rather than diverting them 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 85% greater than its peers'. The company doesn't offer aggressive UL product features

because it believes that its conservatism will be rewarded over time, which is a luxury many public companies don't have because of shareholder expectations.

However, the company's conservatism hasn't translated into inaction. Guardian recognizes that its customers are seeking wealth accumulation products to complement their protection products, and the company responded by introducing a GMWB rider that is market competitive and dynamically hedged. The demutualization of many other major insurers has left a competitive niche for Guardian and other insurers that have remained committed to policyholder value and participating permanent life insurance products.

Guardian's cornerstone is its agency force, which we view as a key strength to the ratings. The company has devoted considerable energy to improving its marketing capability by implementing a program to help its 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 it achieving growth. It also met its 5% net agent increase recruiting goal in 2010. However, as the company increases its field force, lower overall productivity could become an issue because less-experienced agents require more time and training to become fully productive. Guardian addresses this issue by increasing its agent recruiting requirements and reducing the number of less-productive agents.

Guardian has invested in building its asset accumulation businesses to serve its high-net-worth customer base's financial needs. The results have been mixed. However, the company has recruited new investment management talent, and the preliminary results are encouraging. Guardian established a mutual fund complex in the 1970s and a full-service broker-dealer in the 1990s. In 2006, the company acquired a majority interest in a small asset manager, RS Investments. This acquisition 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 reorganized its distribution under one executive. This is a departure from its historical organizational structure that had aligned distribution with each product-focused profit center.

Guardian field agents are the company's primary producers, but the group and retirement wholesalers play a critical role as well. BLICOA focuses on individual DI, but it also provides brokered life insurance. Guardian's 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 hurt 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.

The company's 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 that it doesn't take material overt duration mismatch risk across its business lines. 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 it 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. For 2011, the company is focusing its ERM efforts on refining its enterprise risk appetite and refreshing its emerging risk and strategic risk identification process.

Guardian organizes its ERM, both in scope and depth, around a formal, multidisciplinary structure. Its ERM framework is clearly a part of all significant decision-making: evident in all aspects of the business, including product design, investments, asset/liability management, operations, security, and capitalization.

In 2010, the company developed a capital allocation model to provide an additional perspective in managing its product portfolio. Guardian's status as a mutual insurance company allows it to prudently build products around fully thought out risk management processes rather than rush to meet market demands. This isn't to say the company doesn't take informed risks. But past risk-related 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 insurance products, although the company does offer individual disability, dental, 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. The company's insurance risks are moderate, except for its LTC product, which is 90% reinsured and being discontinued, and its 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. Guardian's 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

(product risk, compliance, and operational risk) reporting to it. These subcommittees have functioned under separate charters since 2003, and they allow appropriate delegation. Guardian is adding more subcommittees, including ERM subcommittees at BLICOA and at the individual life, retirement, and group insurance business segments. 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.

Guardian tightly controls its credit risk, managing concentration exposures to a hard limit daily. The company leverages its mutuality by managing investments based on long-term economic values rather than based on short-term accounting results, as many public companies feel pressured to do. Although Guardian's accounting results may exhibit some volatility, its true economic risk should be within the tolerance for the ratings. The company maintains a highly disciplined approach to credit risk management, employing fundamental analysis across the credit spectrum. It also continues to hold an above-average 'BBB' exposure (45% of total corporate bonds on a consolidated statutory basis), and it manages interest rate risk in the form of duration matching and convexity monitoring.

The company's investment allocation to unaffiliated equities is similar to the industry average and slightly lower than that of its large mutual insurance company peers'. Unlike the industry, Guardian manages its equity exposure and hedges the exposure in aggregate to minimize capital loss. The company's exposure consists of direct equity investments such as common stock, private and real estate equities, and affiliated stock, as well as 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 "the Greeks" (delta, rho, vega, and gamma) to manage risk. Guardian designed the hedging program 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 rigorous, and the company brings all appropriate disciplines to bear, such as financial, actuarial, investments, legal, and operational. The 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 insurance. The company is fundamentally opposed to aggressive secondary guarantees, and its low UL sales reflect that conviction. The company also conservatively manages its other product lines such as individual disability and dental. Guardian is willing to sacrifice 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 it hasn't 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. The physical security at the company's 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. The company's investment risk management evaluates stress tests, value at risk, cash flow testing models, key rate duration, and convexity. Guardian also uses 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 corporate culture 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 insurance company, Guardian is content to grow mostly organically, and Standard & Poor's doesn't expect that the company will make any large acquisitions. We expect that any small acquisitions Guardian makes will conform to its current risk profile and the company will manage them within existing risk tolerances. We also expect that the company will continue to develop and improve its broad approach to risk management.

### ***Accounting***

We analyzed Guardian's generally accepted accounting principles (GAAP) and National Association of Insurance Commissioners (NAIC) statutory financial statements as of Dec. 31, 2010. In our view, Guardian has a history of conservative reserving practices and has been an active participant in reserve standard setting. The company's adjusted GAAP income reflects adjustments for deferred acquisition cost changes associated with capital gains, future margin assumptions, and policyholder dividends.

### ***Operating Performance: Very Strong, With Improved Earnings And Stable Expenses In 2010***

Guardian's operating performance is very strong, with a statutory pretax ROA of 0.76% in 2010, excluding realized capital gains and losses. Its consolidated statutory pretax operating (which excludes realized gains and losses and one-time items) income totaled \$347 million in 2010, compared with 302 million in 2009 and \$267 million in 2008. Its GAAP adjusted pretax operating income increased to \$449 million in 2010 from \$252 million in 2009, which was a drop from \$595 million in 2008. Guardian's improved earnings for 2010 primarily reflects the company's favorable mortality experience in its whole life business and increased investment income.

Table 3

<b>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Summary Operating Statistics</b>					
	<b>Year ended Dec. 31</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Pretax income (mil. \$)*	398.2	226.5	222.1	356.7	311.2
Net income (mil. \$)*	271.9	37.6	402.2	312.0	396.2
Statutory earnings adequacy ratio (%)	N.A.	N.A.	N.A.	175.8	126.3
Return on revenue (%)	4.04	2.46	2.57	3.92	3.47
Return on assets (%)	0.91	0.59	0.59	0.95	0.87
Pretax statutory rate of return on capital (%)	N.A.	N.A.	N.A.	10.79	8.93

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years. N.A.—Not available.

Table 4

<b>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Operating Statistics</b>					
	<b>Year ended Dec. 31</b>				
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
General expenses (mil. \$)*	1,192.2	1,104.7	1,086.5	1,105.8	1,067.1
General expense ratio (%)	15.2	14.4	14.8	14.9	14.8
Expense ratio (%)	21.4	20.0	19.8	20.6	19.5
Unit expenses (in whole dollars) (mil. \$)*	281.0	267.3	236.4	208.9	226.8
General expenses as a % of total assets	2.6	2.8	3.0	2.9	2.9
Commission ratio (%)	4.0	4.1	3.9	4.1	4.1
Lapse ratio (ordinary only) (%)	5.7	6.4	6.1	5.9	5.5
Mortality ratio (%)	82.4	92.0	122.5	207.7	237.6
Investment spread (%)	2.8	2.4	2.4	2.5	2.5
<b>Accident and health (%)</b>					
Loss ratio	72.1	72.3	73.5	74.0	73.4
Expense ratio	28.9	25.8	25.0	24.4	23.2
Combined ratio	101.0	98.1	98.5	98.4	96.5

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years.

Guardian's expenses are stable and in line with its past expenses, though they're higher relative to its peers'. The company's general expense ratio of 14.4% for 2010 was consistent with the ratio for 2009 but lower than the ratio of 14.8% for 2008. In their total premium calculations, 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. Guardian doesn't offer these products, so it is difficult to compare the company's expense ratios with those of its peers because of these differences in business mix.

**Prospective**

Standard & Poor's expects that Guardian's consistency during the past three years will continue in 2011, with a moderate decline in operating income because of the one-time favorable mortality and morbidity experience in 2010, partially offset by modest revenue growth.

### ***Investments: Dynamic Risk Management Strategies Support The Very Strong Investment Portfolio***

We consider Guardian's investment portfolio to be very 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 emphasizing accounting income. Guardian aligns its compensation for investment professionals with this goal.

Table 5

<b><i>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Investment Statistics</i></b>					
	<i>Year ended Dec. 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Net investment income (mil. \$)*	1,923.5	1,649.5	1,568.3	1,549.6	1,461.1
Total invested assets (mil. \$)*	35,117.6	30,751.4	28,674.1	28,252.5	26,754.8
Net realized capital gains (mil. \$)*	(46.6)	(122.6)	124.1	75.7	121.3
Asset risk to invested assets (%)	N.A.	N.A.	N.A.	7.3	8.3
High-risk assets to total invested assets (%)	13.0	12.4	11.5	15.0	13.9
Net investment yield (%)	5.66	5.55	5.51	5.63	5.65
Five-year realized capital gains to invested assets (%)	0.12	0.20	0.32	0.55	0.51
<b><i>Portfolio composition (%)</i></b>					
Cash, cash equivalents, and short-term investments	1.3	0.8	3.9	0.5	0.5
Bonds	69.1	68.8	61.3	60.8	61.7
Mortgage-backed securities	3.4	2.1	5.7	6.4	6.5
Mortgages	10.0	10.9	12.1	11.0	10.2
Policy loans	8.0	8.4	8.4	7.7	7.3
Stocks	4.0	5.1	4.8	9.7	11.1
Real estate	0.5	0.6	0.6	0.5	0.5
Other	3.6	3.4	3.1	3.4	2.2

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years. N.A.—Not available.

Prior to 2003, Guardian's unhedged and significantly more concentrated public equity exposure led to higher-than-average volatility. However, the investment portfolio's current diversification and the aggregated equity hedge program have reduced the potential for similar volatility. Guardian maintains an above-average investment allocation in equities relative to the overall industry, and it invests less in equities than its large mutual insurance company peers.

Historically, Guardian's 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 (45% of total corporate bonds on a statutory basis) as of year-end 2010, compared with 41.1% as of year-end 2009.

**Liquidity: A Highly Liquid Investment Portfolio And A Stable Liability Profile**

Guardian's liquidity is very strong. The company 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 company's 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. The company's exposure to fixed annuities is low but has risen modestly in recent years and does increase its liquidity need somewhat.

Table 6

<b>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Liquidity And Reserves Statistics</b>					
	<i>Year ended Dec. 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
<b>Allocation of reserves (mil. \$)*</b>					
Individual life	77.4	82.5	81.6	80.9	79.5
Group life	0.8	0.9	1.0	1.0	1.0
Individual annuities	6.0	7.1	7.6	8.3	9.6
Group annuities (including guaranteed investment contracts)	0.4	0.4	0.5	0.5	0.5
Accident and health	10.1	3.1	3.3	3.4	3.4
Other	5.2	5.9	6.1	5.8	6.0
Liquidity ratio (%)	311.8	279.9	261.0	277.6	303.0

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years.

**Capitalization: A Strength To The Ratings, Protected By Hedging Program**

We view Guardian's capitalization as a strength to the ratings. Guardian's capital adequacy, as measured in part based on our risk-based capital model, which includes incremental asset stress factors, is redundant at the rating levels. In 2010, the company's total adjusted capital increased to \$5.4 billion from \$4.9 billion because of organic earnings, improved credit, and equity market performance. In addition, Guardian has a hedging program, which provides a floor for its capital at a capital-to-asset ratio of 15.5%. Although its 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 its similarly rated peers' losses.

The company's generally conservative actuarial reserving practices add an additional level of conservatism to its 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

<b>Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Capitalization Statistics</b>					
	<i>Year ended Dec. 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Total assets (mil. \$)*	45,330.3	39,918.1	36,263.6	38,486.6	36,769.6
General account assets (mil. \$)*	37,246.1	32,924.3	30,875.7	30,148.8	28,741.5
Total liabilities (excluding separate accounts and asset valuation reserve) (mil. \$)	32,247.3	28,109.1	26,968.7	25,835.4	24,725.4
Total adjusted capital (including asset valuation reserve) (mil. \$)	5,381.0	4,959.6	4,290.1	4,673.9	4,355.8

Table 7

**Guardian Life Insurance Co. of America And Core Operating Subsidiaries/Capitalization Statistics (cont. 'd)**

	Year ended Dec. 31				
	2010	2009	2008	2007	2006
Unrealized capital gains (mil. \$)*	216.6	290.8	(696.6)	25.3	115.1
Capital adequacy ratio (%)	N.A.	N.A.	N.A.	365.3	292.1
Company action level to NAIC risk-based capital ratio (%)*	413.4	465.2	426.0	437.0	400.2
Assets risk to total adjusted capital ratio (%)	N.A.	N.A.	N.A.	44.5	51.1
High-risk assets to total adjusted capital ratio (%)*	84.6	77.0	76.8	90.9	85.4
Surplus from operating earnings after dividends (%)*	161.0	140.9	208.8	146.0	88.8
Stockholder dividends divided by net income*	0.9	0.8	0.7	0.8	1.5
Net premiums to gross premiums (%)*	91.8	92.9	92.7	92.6	93.5
Net reserves to gross reserves (%)* **	90.6	91.2	91.4	91.4	91.5
Stockholders' dividends (mil. \$)*	0.0	0.0	0.0	0.0	13.1
Stockholders' dividends to net operating income (%)*	0.0	0.0	0.0	0.0	4.8

\*The 2010 data include Berkshire Life Insurance Co. of America data that aren't included in prior years. \*\*Includes annuity and fund deposits. N.A.—Not available. NAIC—National Association of Insurance Commissioners.

**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 also 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 status as a mutual insurance company 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 13-Jul-2011)\*****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-

Berkshire Life Insurance Company of America

Financial Strength Rating

Local Currency

AA+/Stable/—

Issuer Credit Rating

Local Currency

AA+/Stable/—

Guardian Insurance &amp; Annuity Co.

**Ratings Detail (As Of 13-Jul-2011)\* (cont. 'd)**

Financial Strength Rating	
Local Currency	AA+/Stable/—
Issuer Credit Rating	
Local Currency	AA+/Stable/—
<b>Domicile</b>	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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