

The Guardian Life Insurance Company of America

**Audited Statutory Basis
Financial Statements and Supplemental Schedules
December 31, 2018 and 2017**

The Guardian Life Insurance Company of America

Audited Statutory Basis Financial Statements

December 31, 2018 and 2017

Report of Independent Auditors	2
Statutory Basis Balance Sheets	4
Statutory Basis Statements of Operations	5
Statutory Basis Statements of Changes in Policyholders' Surplus	6
Statutory Basis Statements of Cash Flows	7
Notes to Statutory Basis Financial Statements	8
Schedule 1 – Selected Financial Data	67
Investment Risk Interrogatories	71
Summary Investment Schedule	77



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 and 2017, 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

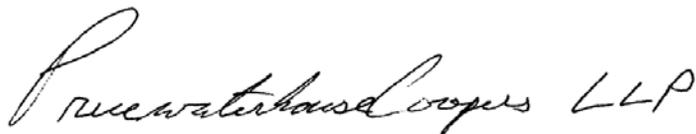
In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in dark ink and is positioned above the date.

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:

	2018	2017
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>
	2018	2017
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.

	2018	
	Amortized Cost	Estimated Fair Value
	(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	\$ 39,361	\$ 39,250

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

	2018	2017
	(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)	153	26
Tax benefit	(9)	-
Total change in net unrealized gains, net of tax	\$ 144	\$ 26

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 Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized 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)

December 31, 2017 (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	\$ 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 Hybrid	207	(2)	343	(7)	550	(9)
	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 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	<u>(227)</u>	<u>(225)</u>
Net investment income	<u>\$ 2,132</u>	<u>\$ 2,106</u>

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
Total net realized capital gains	<u>(379)</u>	<u>291</u>
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	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>

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	-	-
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		Post Retirement Benefits	
	For the Years Ended		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 States, Territories	-	4	-	4
Political Subdivisions	-	3	-	3
Special revenue	-	1	-	1
Industrial and Miscellaneous	-	4	-	4
Total Fixed maturities	-	1,297	-	1,297
Total	\$ -	\$ 1,309	\$ -	\$ 1,309
	\$ -	\$ 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
	(In millions)			
	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

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)	-	-	-
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>\$ -</u>	<u>323</u>	<u>\$ -</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	38,048,437	
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	63,035,345	
Deferred - Not Fully Paid - Account Balance	131,935,557	
Annuities - Group		
Amount of Income Payable	76,071	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	3,231,459,038	
Credit	-	
Other	529,960,367	
Deposit Funds and Dividend Accumulations		
Deposit Funds - Account Balance	25,440,268	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	96,728,343	
Claim Payments 2018		
Group Accident and Health Year - Ended December 31, 2015		
2018	1,564,470	Schedule O, Part 1 Section A
2017	1,745,216	
2016	1,769,074	
2015	1,698,467	
2014	1,601,114	
Prior	645,911	
Other Accident & Health		
2018	33,016	Section B
2017	36,067	
2016	26,245	
2015	27,351	
2014	18,448	
Prior	136,827	
Credit Accident & Health		
2018	-	Section C
2017	-	
2016	-	
2015	-	
2014	-	
Prior	-	

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	\$ -	0.0%
	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
	1	2	3	4	5
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
	1	2	3	4	5
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
	1	2	3	4	5
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%	\$ 76	\$ -	\$ -

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