Group & Worksite Benefits

Guardian

December 12, 2018

# Financial Strength & Stability for the State of Nebraska

## RFP 5953 Z1

**Presented by Thomas Cox, Executive Sales Consultant**
**The Guardian Life Insurance Company of America**
**10855 West Dodge Road, Suite 210**
**Omaha, NE 68154**
**913-905-3916**
thomas_cox@glic.com

Flash Drive
Enclosed
Password: "Guardian1!"

Guardian

7 Hanover Square
New York, NY 10004-1025
guardiananytime.com

December 12, 2018

Teresa Fleming, Buyer
State Purchasing Bureau
1526 K Street, Suite 130
Lincoln, NE 68508

Dear Ms. Fleming:

Thank you for the opportunity to provide Life coverages to the State of Nebraska (the State). The right carrier understands and appreciates your benefits needs. Guardian prides itself in helping public administrations like the State offer the most appropriate and competitive benefits for your employees – and for your business.

Government jobs used to be for life. Today, that's no longer the case as more and more public employees leave for private sector jobs with better pay and benefits. Governments face the prospect of providing more constituent services with fewer resources due to budgetary constraints.

To help the State retain employees and balance its budget, we offer competitive benefits and innovative solutions that maximize coverage options and ease of administration. We have extensive expertise providing employee benefits for the public sector and currently serve 851 local and state government agencies.

Our proposal outlines and illustrates why working with us will satisfy your employees. Included with our offer is our exclusive College Tuition Benefit, as well as, WorkLife Matters and WillPrep services. In addition, we are including Portability with Voluntary Life, which will be an enhancement to the current benefits. For over 150 years, we've helped millions plan, secure and look after their families, communities, businesses and futures. We are excited for the opportunity to learn how we can help the State and their employees.

We acknowledge the receipt of addendum(s): #1, #2, #3 and #4.

We look forward to building a relationship with the State and helping you provide for your employees while managing your bottom line. I'll contact you shortly to follow up on this proposal. In the meantime, if you have any questions, you can reach me at 913-905-3916 or thomas_cox@glic.com.

I look forward to talking with you soon.

Sincerely,

Thomas Cox
Executive Sales Consultant

# What you'll find in this package

1

# Request for Proposal Contractual Services Form

## REQUEST FOR PROPOSAL FOR CONTRACTUAL SERVICES FORM

By signing this Request for Proposal for Contractual Services form, the bidder guarantees compliance with

BIDDER MUST COMPLETE THE FOLLOWING

the procedures stated in this Request for Proposal, and agrees to the terms and conditions unless otherwise indicated in writing and certifies that bidder maintains a drug free work place.

Per Nebraska's Transparency in Government Procurement Act, Neb. Rev Stat § 73-603 DAS is required to collect statistical information regarding the number of contracts awarded to Nebraska Contractors. This information is for statistical purposes only and will not be considered for contract award purposes.

✓ _____ NEBRASKA CONTRACTOR AFFIDAVIT: Bidder hereby attests that bidder is a Nebraska Contractor. "Nebraska Contractor" shall mean any bidder who has maintained a bona fide place of business and at least one employee within this state for at least the six (6) months immediately preceding

_____ I hereby certify that I am a Resident disabled veteran or business located in a designated enterprise zone in accordance with Neb. Rev. Stat. § 73-107 and wish to have preference, if applicable, considered in the award of this contract.

_____ I hereby certify that I am a blind person licensed by the Commission for the Blind & Visually Impaired in accordance with Neb. Rev. Stat. §71-8611 and wish to have preference considered in the award of this contract.

**FORM MUST BE SIGNED USING AN INDELIBLE METHOD (NOT ELECTRONICALLY)**

| | |
|---|---|
| FIRM: | **The Guardian Life Insurance Company of America** |
| COMPLETE ADDRESS: | **7 Hanover Square New York, NY 10007** |
| TELEPHONE NUMBER: | **610-807-8021** |
| FAX NUMBER: | **610-807-8115** |
| DATE: | **December 10, 2018** |
| SIGNATURE: | |
| TYPED NAME & TITLE OF SIGNER: | **Anthony Perez, Vice President & Chief Underwriting Officer, Group Insurance** |

2

# Corporate Overview

## CORPORATE OVERVIEW

### a. BIDDER IDENTIFICATION AND INFORMATION

**The bidder should provide the full company or corporate name, address of the company's headquarters, entity organization (corporation, partnership, proprietorship), state in which the bidder is incorporated or otherwise organized to do business, year in which the bidder first organized to do business and whether the name and form of organization has changed since first organized.**

The company's legal name is The Guardian Life Insurance Company of America®. Our headquarters is located at 7 Hanover Square New York, New York 10004. Guardian's state of incorporation is New York. We are licensed to do business in all 50 states. Guardian is a mutual company, which means we have no stockholders or private owners, we operate solely for the benefit of our participating policyholders.

### b. FINANCIAL STATEMENTS

**The bidder should provide financial statements applicable to the firm. If publicly held, the bidder should provide a copy of the corporation's most recent audited financial reports and statements, and the name, address, and telephone number of the fiscally responsible representative of the bidder's financial or banking organization.**

**If the bidder is not a publicly held corporation, either the reports and statements required of a publicly held corporation, or a description of the organization, including size, longevity, client base, areas of specialization and expertise, and any other pertinent information, should be submitted in such a manner that proposal evaluators may reasonably formulate a determination about the stability and financial strength of the organization. Additionally, a non-publicly held firm should provide a banking reference.**

**The bidder must disclose any and all judgments, pending or expected litigation, or other real or potential financial reversals, which might materially affect the viability or stability of the organization, or state that no such condition is known to exist.**

**The State may elect to use a third party to conduct credit checks as part of the corporate overview evaluation.**

Our Audited Financial Statements for 2016 and 2017 are included in the Additional Forms and Attachments section of our response.

Financial information concerning The Guardian Life Insurance Company of America as of December 31, 2017, on a statutory basis: Admitted Assets = $55.6 Billion; Liabilities = $48.9 Billion (including $41.8 Billion of Reserves); and Surplus = $6.7 Billion.

At 158 years old, Guardian's longevity is evidence of our ability to innovate and evolve alongside our customers. We have successfully weathered many market cycles by maintaining a strong set of values and keeping our customers' needs primary in everything we do. As of 12/31/2017, we serve over 123,700 customers, representing over 6.6 million lives. Guardian and its subsidiaries are committed to protecting individuals, business owners, and their employees with life insurance, disability income insurance, annuities, and investments for individuals and providing comprehensive workplace benefits, such as dental, disability, vision, life, and supplemental health insurance.

All four of the major rating agencies have affirmed Guardian's very high ratings over the last year, citing our investment performance, capital position, risk management, and operating performance as reasons for their affirmation. These ratings have been affirmed every year since 2008, providing further evidence of the stable view these ratings agencies have of Guardian.

| Rating Agency | Rating | Category |
|---|---|---|
| Standard & Poor's[1] | AA+ (2nd highest of 22 ratings) | Very Strong |
| Moody's Investors Services[2] | Aa2 (3rd highest of 21 ratings) | Excellent |
| Fitch[3] | AA+ (2nd highest of 21 ratings) | Very Strong |
| A.M. Best Company[4] | A++ (highest of 15 ratings) | Superior |
| Comdex rating composite[5] | 98 out of 100 | N/A |

Guardian's bank is JP Morgan Chase Bank, N.A, which is located at 270 Park Avenue, 41st Floor New York, NY 10017. We have attached a Bank Reference Letter.

Like any large group insurer, Guardian is subject to litigation in various jurisdictions as part of its normal operations. At any given time, there are less than fifty active Group cases. Guardian does not view any of the Group cases as material or evidencing any material issues with its ongoing operations. Below are the largest cases by exposure involving the Group business for Life benefits for the last several years:

| Jurisdiction | Plaintiff | Year Filed | Type of Case | Amount |
|---|---|---|---|---|
| MI (fed) | XXXXXXXXXXXXX | 2017 | Life Benefits | $350K |

As of Q4 2017

| Jurisdiction | Plaintiff | Year Filed | Type of Case | Amount |
|---|---|---|---|---|
| MO (fed) | XXXXXXXXXXXXX | 2016 | Life Benefits | $200K |
| NE (state) | XXXXXXXXXXXXX | 2016 | Life Benefits | $150K |

As of Q4 2016

Ratings as of January 2018 and are subject to change.
[1] A Standard & Poor's Insurer Financial Strength Rating is a current opinion of the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. An insurer rated 'AA' has very strong financial security characteristics, differing only slightly from those rated higher.
[2] Moody's Insurance Financial Strength Ratings are opinions of the ability of insurance companies to repay punctually senior policyholder claims and obligations. Insurance companies rated Aa offer excellent financial security and, together with Moody's Aaa group, constitute what are generally known as high-grade companies.
[3] Fitch's Insurer Financial Strength Rating provides an assessment of the financial strength of an insurance organization, and its capacity to meet senior obligations to policyholders and contract holders on a timely basis. Insurers with an AA rating are viewed as possessing very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small.
[4] Best's Ratings indicate the financial strength of insurance companies. The A++ and A+ ratings are assigned to companies that have, in Best's opinion, a superior ability to meet their ongoing obligations to policyholders. Guardian's financial size category as assigned by the A.M. Best agency is XV ($2 Billion or greater).
[5] The Comdex gives the average percentile ranking of this company in relation to all other companies that have been rated by the rating services. The Comdex is the percentage of companies that are rated lower than this company. The Comdex score is not a rating, but a composite (on a scale of 1 to 100) of all ratings that a company has received. Insurance industry experts consider a company with a Comdex of 95 or higher as "extremely safe."

| Jurisdiction | Plaintiff | Year Filed | Type of Case | Amount |
|---|---|---|---|---|
| SC (fed) | XXXXXX | 2015 | Life benefits | $320K |
| MS (fed) | XXXXXX | 2015 | Life benefits | $25K |
| NY (fed) | XXXXXX | 2015 | Life benefits | $8K |

### c. CHANGE OF OWNERSHIP

**If any change in ownership or control of the company is anticipated during the twelve (12) months following the proposal due date, the bidder should describe the circumstances of such change and indicate when the change will likely occur. Any change of ownership to an awarded vendor(s) will require notification to the State.**

There are no anticipated changes in ownership or control of Guardian during the twelve (12) months following the proposal due date.

### d. OFFICE LOCATION

**The bidder's office location responsible for performance pursuant to an award of a contract with the State of Nebraska should be identified.**

Our regional group sales office in Omaha, Nebraska will be responsible for the performance pursuant to an award of a contract with the State.

### e. RELATIONSHIPS WITH THE STATE

**The bidder should describe any dealings with the State over the previous three (3) years. If the organization, its predecessor, or any Party named in the bidder's proposal response has contracted with the State, the bidder should identify the contract number(s) and/or any other information available to identify such contract(s). If no such contracts exist, so declare.**

To the best our knowledge and belief, there has been no dealings with the State over the previous three (3) years.

### f. BIDDER'S EMPLOYEE RELATIONS TO STATE

**If any Party named in the bidder's proposal response is or was an employee of the State within the past two (2) years, identify the individual(s) by name, State agency with whom employed, job title or position held with the State, and separation date. If no such relationship exists or has existed, so declare.**

**If any employee of any agency of the State of Nebraska is employed by the bidder or is a Subcontractor to the bidder, as of the due date for proposal submission, identify all such persons by name, position held with the bidder, and position held with the State (including job title and agency). Describe the responsibilities of such persons within the proposing organization. If, after review of this information by the State, it is determined that a conflict of interest exists or may exist, the bidder may be disqualified from further consideration in this proposal. If no such relationship exists, so declare.**

To the best our knowledge and belief, there has been no such relationship that exists or has existed with the State over the past two (2) years.

**g. CONTRACT PERFORMANCE**

**If the bidder or any proposed Subcontractor has had a contract terminated for default during the past three (3) years, all such instances must be described as required below. Termination for default is defined as a notice to stop performance delivery due to the bidder's non-performance or poor performance, and the issue was either not litigated due to inaction on the part of the bidder or litigated and such litigation determined the bidder to be in default.**

**It is mandatory that the bidder submit full details of all termination for default experienced during the past three (3) years, including the other Party's name, address, and telephone number. The response to this section must present the bidder's position on the matter. The State will evaluate the facts and will score the bidder's proposal accordingly. If no such termination for default has been experienced by the bidder in the past three (3) years, so declare.**

**If at any time during the past three (3) years, the bidder has had a contract terminated for convenience, non-performance, non-allocation of funds, or any other reason, describe fully all circumstances surrounding such termination, including the name and address of the other contracting Party.**

To the best our knowledge and belief, there has been no contract terminated for default during the past three (3) years.

**h. SUMMARY OF BIDDER'S CORPORATE EXPERIENCE**

**The bidder should provide a summary matrix listing the bidder's previous projects similar to this RFP in size, scope, and complexity. The State will use no more than three (3) narrative project descriptions submitted by the bidder during its evaluation of the proposal.**

**The bidder should address the following:**

**i. Provide narrative descriptions to highlight the similarities between the bidder's experience and this RFP. These descriptions should include:**

**a) The time period of the project;**
**b) The scheduled and actual completion dates;**
**c) The Contractor's responsibilities;**
**d) For reference purposes, a customer name (including the name of a contact person, a current telephone number, a facsimile number, and e-mail address); and**
**e) Each project description should identify whether the work was performed as the prime Contractor or as a Subcontractor. If a bidder performed as the prime Contractor, the description should provide the originally scheduled completion date and budget, as well as the actual (or currently planned) completion date and actual (or currently planned) budget.**

**ii. Contractor and Subcontractor(s) experience should be listed separately. Narrative descriptions submitted for Subcontractors should be specifically identified as Subcontractor projects.**

**iii. If the work was performed as a Subcontractor, the narrative description should identify the same information as requested for the Contractors above. In addition, Subcontractors should identify what share of contract costs, project responsibilities, and time period were performed as a Subcontractor.**

What our clients say about Guardian is much more important than what we can say about ourselves. We are proud to boast a long list of client references, but have taken care to list only several that are particularly relevant to the State and similar to this RFP in size, scope and complexity.

We encourage the State to contact any of our clients listed below, and will be happy to provide additional references at your request. Due to contractual clauses and privacy concerns, a written narrative disclosing the aforementioned project descriptions will be unavailable during the evaluation period. The State is at liberty to obtain narrative descriptions, by directly contacting the references outlined below:

1. Company Name: JFT Health and Welfare Fund
   Contact Name: Mickey Graham, Administrative Manager
   Telephone Number: 504-455-7261
   Email: mgraham@jfthw.org
   Facsimile Number: 504-455-7267

2. Company Name: Tomball Independent School District
   Contact Name: Pam Norsworthy, Benefit Coordinator
   Telephone Number: 281-357-3100, extension 2021
   Email: pamelanorsworthy@tomballisd.net
   Facsimile Number: 281-357-3128

3. Company Name: Humble Independent School District
   Contact Name: Billy Beattie, Director of Benefits and Systems
   Telephone Number: 281-641-8178
   Email: bbeatti@humbleisd.net
   Facsimile Number: 281-641-1050

## I. SUMMARY OF BIDDER'S PROPOSED PERSONNEL/MANAGEMENT APPROACH

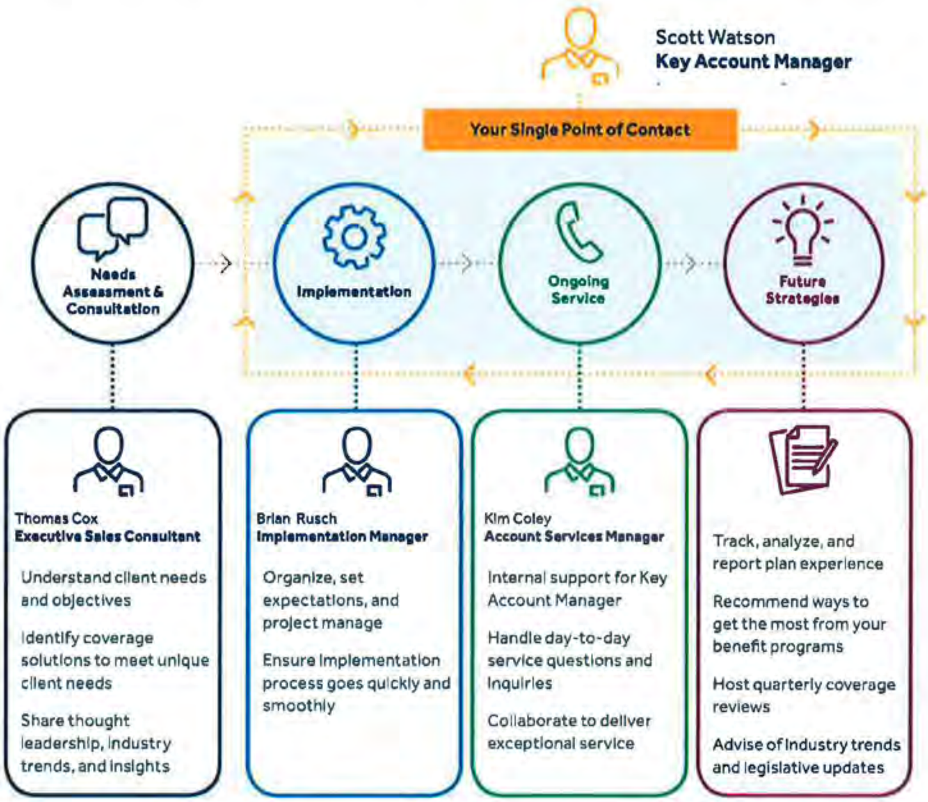
**The bidder should present a detailed description of its proposed approach to the management of the project.**

**The bidder should identify the specific professionals who will work on the State's project if their company is awarded the contract resulting from this RFP. The names and titles of the team proposed for assignment to the State project should be identified in full, with a description of the team leadership, interface and support functions, and reporting relationships. The primary work assigned to each person should also be identified.**

**The bidder should provide resumes for all personnel proposed by the bidder to work on the project. The State will consider the resumes as a key indicator of the bidder's understanding of the skill mixes required to carry out the requirements of the RFP in addition to assessing the experience of specific individuals.**

**Resumes should not be longer than three (3) pages. Resumes should include, at a minimum, academic background and degrees, professional certifications, understanding of the process, and at least three (3) references (name, address, and telephone number) who can attest to the competence and skill level of the individual. Any changes in proposed personnel shall only be implemented after written approval from the State.**

Finding an insurance carrier who is easy to do business with isn't always easy. Account management can be a tricky balance – the State needs powerful, full-team support from experienced professionals, and the ease of knowing who to call when you need help. Our Account Management Team is completely organized around your needs. Here's how it works:




The State has a dedicated team, experienced in servicing large accounts. This team includes your Executive Sales Consultant, Account Services Manager, and Implementation Manager – they all work together with your Key Account Manager, an experienced strategist who oversees your service relationship with us, assuring your account is implemented and managed simply, quickly, and accurately.

With a service model designed specifically to meet the needs of large customers like the State, it's no wonder why 92% of our large customers say doing business with us is easy.[6]

[6] 2017 Guardian "Voice of the Customer" Survey

**Meet Your Dedicated Team**

Choosing an insurance carrier involves much more than comparing plan designs and rates. For large customers in particular, your account management team can make all the difference. Who you work with matters.

In lieu of proving resumes we have included short biographies of each professional that will support the State. If selected, we are happy to provide full professional resumes. Here are the professionals who will be supporting the State through every stage of your relationship with Guardian – needs assessment and consultation, implementation and enrollment, ongoing service, and future strategies.

**THOMAS COX**
**Executive Sales Consultant**

With 5 years in the business and experience working for the industry's top carriers, Thomas has built his career and reputation on delivering quality service and solutions. Known for his strong relationship-building skills, Thomas will work with you to design a comprehensive benefits program that meets your unique needs.

Thomas earned his bachelor's degree in Secondary Education from West Coast Baptist College.

**Scott Watson**
**Key Account Manager**

Scott's employee benefits career spans over 38 years, with extensive experience in sales and account management. As your go-to strategic partner, he'll oversee every aspect of your plan administration and service, and recommend ways to help you get the most from your benefits programs.

Scott earned a BA in Finance and Insurance from the University of Illinois, an MBA from the Keller Graduate School of Management, and a CEBS designation.

**Kim Coley**
**Account Services Manager**

With a career spanning 17 years at Guardian, Kim brings a wealth of industry knowledge. Specializing in customer service and process improvement, she's a skilled internal quarterback who supports your Key Account Manager by coordinating internal resources and quickly responding to day-to-day service questions.

**Brian Rusch**
**Implementation Manager**

With 20 years of experience in group insurance, Brian brings a wealth of knowledge about the industry. He will project manage your implementation and ensure a smooth transition of services by setting clear expectations, keeping you informed, and engaging the right resources.

Brian attended Fox Valley Technical College and is Six Sigma Yellow Belt certified.

## j. SUBCONTRACTORS

**If the bidder intends to Subcontract any part of its performance hereunder, the bidder should provide:**

**i. name, address, and telephone number of the Subcontractor(s);**
**ii. specific tasks for each Subcontractor(s);**
**iii. percentage of performance hours intended for each Subcontract; and**
**iv. total percentage of Subcontractor(s) performance hours.**

We work with several organizations to provide certain incidental services within our lines of coverage. It is Guardian's position that these services are indirect or incidental to the performance of any Contract we may have with the State. These organization(s) include:

i. Integrated Behavioral Health (IBH)

Address: 3070 Bristol Suite #350, Costa Mesa, CA 92626

Telephone Number: 1-800-386-7055

ii. IBH will provide Employee Assistance Program (EAP) and WillPrep Services.

iii. The percentage of performance hours intended for EAP and WillPrep services are not applicable, as they not counted towards the performance of the contract. EAP and WillPrep services are value-added services being included with our offer.

iv. The total percentage of subcontractor performance hours will be not applicable as the services provided by IBH are indirect to the performance of the contract.

# Sections II through VI

## II. TERMS AND CONDITIONS

**Bidders should complete Sections II through VI as part of their proposal.** Bidder is expected to read the Terms and Conditions and should initial either accept, reject, or reject and provide alternative language for each clause. The bidder should also provide an explanation of why the bidder rejected the clause or rejected the clause and provided alternate language. By signing the RFP, bidder is agreeing to be legally bound by all the accepted terms and conditions, and any proposed alternative terms and conditions submitted with the proposal. The State reserves the right to negotiate rejected or proposed alternative language. If the State and bidder fail to agree on the final Terms and Conditions, the State reserves the right to reject the proposal. The State of Nebraska is soliciting proposals in response to this RFP. The State of Nebraska reserves the right to reject proposals that attempt to substitute the bidder's commercial contracts and/or documents for this RFP.

The bidders should submit with their proposal any license, user agreement, service level agreement, or similar documents that the bidder wants incorporated in the Contract. The State will not consider incorporation of any document not submitted with the bidder's proposal as the document will not have been included in the evaluation process. These documents shall be subject to negotiation and will be incorporated as addendums if agreed to by the Parties.

If a conflict or ambiguity arises after the Addendum to Contract Award have been negotiated and agreed to, the Addendum to Contract Award shall be interpreted as follows:

1. If only one Party has a particular clause then that clause shall control;
2. If both Parties have a similar clause, but the clauses do not conflict, the clauses shall be read together;
3. If both Parties have a similar clause, but the clauses conflict, the State's clause shall control.

### A. GENERAL

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

The contract resulting from this RFP shall incorporate the following documents:

1. Insurance policy issued by Contractor upon winning this RFP;
~~1.~~2. Request for Proposal and Addenda;
~~2.~~3. Amendments to the RFP;
~~3.~~4. Questions and Answers;
~~4.~~5. Contractor's proposal (RFP and properly submitted documents);
~~5.~~6. The executed Contract and Addendum One to Contract, if applicable ; and,
~~6.~~7. Amendments/Addendums to the Contract.

These documents constitute the entirety of the contract.

Unless otherwise specifically stated in a future contract amendment, in case of any conflict between the incorporated documents, the documents shall govern in the following order of preference with number one (1) receiving preference over all other documents and with each lower numbered document having preference over any higher numbered document: 1) Insurance policy issued by Contractor upon winning this RFP, 1A) Amendment to the executed Contract with the most recent dated amendment having the highest priority, 2) executed Contract and any attached Addenda, 3) Amendments to RFP and any Questions and Answers, 4) the original RFP document and any Addenda, and 5) the Contractor's submitted Proposal.

Any ambiguity or conflict in the contract discovered after its execution, not otherwise addressed herein, shall be resolved in accordance with the insurance policy issued by Contractor and rules of contract interpretation as established in the State of Nebraska, however ,to the extent insurance policy terms and conditions conflict with rules of contract interpretation as established in the State of Nebraska, the insurance policy(ies) control.

**B. NOTIFICATION**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

Contractor and State shall identify the contract manager who shall serve as the point of contact for the executed contract.

**C. GOVERNING LAW (Statutory)**

Notwithstanding any other provision of this contract, or any amendment or addendum(s) entered into contemporaneously or at a later time, the parties understand and agree that, (1) the State of Nebraska is a sovereign state and its authority to contract is therefore subject to limitation by the State's Constitution, statutes, common law, and regulation; (2) this contract will be interpreted and enforced under the laws of the State of Nebraska; (3) any action to enforce the provisions of this agreement must be brought in the State of Nebraska per state law; (4) the person signing this contract on behalf of the State of Nebraska does not have the authority to waive the State's sovereign immunity, statutes, common law, or regulations; (5) the indemnity, limitation of liability, remedy, and other similar provisions of the final contract, if any, are entered into subject to the State's Constitution, statutes, common law, regulations, and sovereign immunity; and, (6) all terms and conditions of the final contract, including but not limited to the clauses concerning third party use, licenses, warranties, limitations of liability, governing law and venue, usage verification, indemnity, liability, remedy or other similar provisions of the final contract are entered into specifically subject to the State's Constitution, statutes, common law, regulations, and sovereign immunity.

The Parties must comply with all applicable local, state and federal laws, ordinances, rules, orders, and regulations.

**D. BEGINNING OF WORK**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The bidder shall not commence any billable work until a valid contract has been fully executed by the State and the successful Contractor. The Contractor will be notified in writing when work may begin.

## E. CHANGE ORDERS

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The State and the Contractor, upon the written agreement, may make changes to the contract within the general scope of the RFP. Changes may involve specifications, the quantity of work, or such other items as the State may find necessary or desirable. Corrections of any deliverable, service, or work required pursuant to the contract shall not be deemed a change. The Contractor may not claim forfeiture of the contract by reasons of such changes.

The Contractor shall prepare a written description of the work required due to the change and an itemized cost sheet for the change. Changes in work and the amount of compensation to be paid to the Contractor shall be determined in accordance with applicable unit prices if any, a pro-rated value, or through negotiations. The State shall not incur a price increase for changes that should have been included in the Contractor's proposal, were foreseeable, or result from difficulties with or failure of the Contractor's proposal or performance.

No change shall be implemented by the Contractor until approved by the State, and the Contract is amended to reflect the change and associated costs, if any. If there is a dispute regarding the cost, but both parties agree that immediate implementation is necessary, the change may be implemented, and cost negotiations may continue with both Parties retaining all remedies under the contract and law.

## F. NOTICE OF POTENTIAL CONTRACTOR BREACH

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

If Contractor breaches the contract or anticipates breaching the contract, the Contractor shall immediately give written notice to the State. The notice shall explain the breach or potential breach, a proposed cure, and may include a request for a waiver of the breach if so desired. The State may, in its discretion, temporarily or permanently waive the breach. By granting a waiver, the State does not forfeit any rights or remedies to which the State is entitled by law or equity, or pursuant to the provisions of the contract. Failure to give immediate notice, however, may be grounds for denial of any request for a waiver of a breach.

## G. BREACH

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | AP | **Please review our redline deviations below.** |

Either Party may terminate the contract, in whole or in part, if the other Party breaches its duty to perform its obligations under the contract in a timely and proper manner. Termination requires written notice of default and a ~~thirty~~thirty-one (31~~0~~) calendar day (or longer at the non-breaching Party's discretion considering the gravity and nature of the default) cure period. Said notice shall be delivered by Certified Mail, Return Receipt Requested, or in person with proof of delivery. Allowing time to cure a failure or breach of contract does not waive the right to immediately terminate the contract for the same or different contract breach which may occur at a different time. In case of default of the Contractor, the State may contract the service from other sources and hold the Contractor responsible for any excess cost occasioned thereby.

The State's failure to make payment (except premiums) shall not be a breach, and the Contractor shall retain all available statutory remedies and protections.

## H. NON-WAIVER OF BREACH

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| AP | | | |

The acceptance of late performance with or without objection or reservation by a Party shall not waive any rights of the Party nor constitute a waiver of the requirement of timely performance of any obligations remaining to be performed.

## I. SEVERABILITY

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| AP | | | |

If any term or condition of the contract is declared by a court of competent jurisdiction to be illegal or in conflict with any law, the validity of the remaining terms and conditions shall not be affected, and the rights and obligations of the parties shall be construed and enforced as if the contract did not contain the provision held to be invalid or illegal.

## J. INDEMNIFICATION

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | AP | **Please review our redline deviations below.** |

**1. GENERAL**

The Contractor agrees to defend, indemnify, and hold harmless the State and its employees, volunteers, agents, and its elected and appointed officials ("the indemnified parties") from and against any and all third party claims, liens, demands, damages, liability, actions, causes of action, losses, judgments, costs, and expenses of every nature, including ~~investigation costs and expenses, settlement costs, and~~ reasonable attorney fees and expenses ("the claims"), sustained ~~or asserted~~ against the State for personal injury, death, or property loss or damage, arising out of, resulting from, or attributable to the willful misconduct, gross negligence~~, error, or omission~~ of the Contractor, its employees, Subcontractors, consultants, representatives, and agents, resulting from this contract, except to the extent such Contractor liability is attenuated by any action of the State which directly and proximately contributed to the claims.

**2. INTELLECTUAL PROPERTY**

The Contractor agrees it will, at its sole cost and expense, defend, indemnify, and hold harmless the indemnified parties from and against any and all claims, to the extent such claims arise out of, result from, or are attributable to, the actual or alleged infringement or misappropriation of any patent, copyright, trade secret, trademark, or confidential information of any third party by the Contractor or its employees, Subcontractors, consultants, representatives, and agents; provided, however, the State gives the Contractor prompt notice in writing of the claim. The Contractor may not settle any infringement claim that will affect the State's use of the Licensed Software without the State's prior written consent, which consent may be withheld for any reasonable reason.

If a judgment or settlement is obtained or reasonably anticipated against the State's use of any intellectual property for which the Contractor has indemnified the State, the Contractor shall, at the Contractor's sole cost and expense, promptly modify the item or items which were determined to be infringing, acquire a license or licenses on the State's behalf to provide the necessary rights to the State to eliminate the infringement, or provide the State with a non-infringing substitute that provides the State the same functionality. At the State's election, the actual or anticipated judgment may be treated as a breach of warranty by the Contractor, and the State may receive the remedies provided under this RFP.

**3. PERSONNEL**

The Contractor shall, at its expense, indemnify and hold harmless the indemnified parties from and against any claim with respect to withholding taxes, worker's compensation, employee benefits, or any other claim, demand, liability, damage, or loss ~~of any nature~~ arising out of~~, resulting from, or attributable to the~~ willful misconduct or~~,~~ gross negligence ~~and relating to~~of any of the personnel, including subcontractor's and their employees, provided by the Contractor.

**4. SELF-INSURANCE**

The State of Nebraska is self-insured for any loss and purchases excess insurance coverage pursuant to Neb. Rev. Stat. § 81-8,239.01 (Reissue 2008). If there is a presumed loss under the provisions of this agreement, Contractor may file a claim with the Office of Risk Management pursuant to Neb. Rev. Stat. §§ 81-8,829 – 81-8,306 for review by the State Claims Board. The State retains all rights and immunities under the State Miscellaneous (Section 81-8,294), Tort (Section 81-8,209), and Contract Claim Acts (Section 81-8,302), as outlined in Neb. Rev. Stat. § 81-8,209 et seq. and under any other provisions of law and accepts liability under this agreement to the extent provided by law.

**5.** The Parties acknowledge that Attorney General for the State of Nebraska is required by statute to represent the legal interests of the State, and that any provision of this indemnity clause is subject to the statutory authority of the Attorney General.

## K. ATTORNEY'S FEES

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | Please review our redline deviations below. |

In the event of any litigation, appeal, or other legal action to enforce any provision of the contract, the Parties agree to pay all expenses of such action, as permitted by law and if order by the court, including reasonable attorney's fees and costs, if the other Party prevails.

## L. ASSIGNMENT, SALE, OR MERGER

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

Either Party may assign the contract upon mutual written agreement of the other Party. Such agreement shall not be unreasonably withheld.

The Contractor retains the right to enter into a sale, merger, acquisition, internal reorganization, or similar transaction involving Contractor's business. Contractor agrees to cooperate with the State in executing amendments to the contract to allow for the transaction. If a third party or entity is involved in the transaction, the Contractor will remain responsible for performance of the contract until such time as the person or entity involved in the transaction agrees in writing to be contractually bound by this contract and perform all obligations of the contract.

## M. CONTRACTING WITH OTHER NEBRASKA POLITICAL SUB-DIVISIONS

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The Contractor may, but shall not be required to, allow agencies, as defined in Neb. Rev. Stat. §81-145, to use this contract. The terms and conditions, including price, of the contract may not be amended. The State shall not be contractually obligated or liable for any contract entered into pursuant to this clause. A listing of Nebraska political subdivisions may be found at the website of the Nebraska Auditor of Public Accounts.

## N. FORCE MAJEURE

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
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Neither Party shall be liable for any costs or damages, or for default resulting from its inability to perform any of its obligations under the contract due to a natural or manmade event outside the control and not the fault of the affected Party ("Force Majeure Event"). The Party so affected shall immediately make a written request for relief to the other Party, and shall have the burden of proof to justify the request. The other Party may grant the relief requested; relief may not be unreasonably withheld. Labor disputes with the impacted Party's own employees will not be considered a Force Majeure Event.

## O. CONFIDENTIALITY

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

All materials and information provided by the Parties or acquired by a Party on behalf of the other Party shall be regarded as confidential information. All materials and information provided or acquired shall be handled in accordance with federal and state law, and ethical standards. Should said confidentiality be breached by a Party, the Party shall notify the other Party immediately of said breach and take immediate corrective action.

It is incumbent upon the Parties to inform their officers and employees of the penalties for improper disclosure imposed by the Privacy Act of 1974, 5 U.S.C. 552a. Specifically, 5 U.S.C. 552a (i)(1), which is made applicable by 5 U.S.C. 552a (m)(1), provides that any officer or employee, who by virtue of his/her employment or official position has possession of or access to agency records which contain individually identifiable information, the disclosure of which is prohibited by the Privacy Act or regulations established thereunder, and who knowing that disclosure of the specific material is prohibited, willfully discloses the material in any manner to any person or agency not entitled to receive it, shall be guilty of a misdemeanor and fined not more than $5,000.

**P. EARLY TERMINATION**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

The contract may be terminated as follows:

1. The State and the Contractor, by mutual written agreement, may terminate the contract at any time.
2. The State, in its sole discretion, may terminate the contract for any reason upon ~~thirty~~thirty-one (31~~0~~) calendar day's written notice to the Contractor. Such termination shall not relieve the Contractor of warranty or other service obligations incurred under the terms of the contract. In the event of termination the Contractor shall be entitled to payment, determined on a pro rata basis, for products or services satisfactorily performed or provided.
3. The State may terminate the contract immediately for the following reasons:
   - **a.** if directed to do so by statute;
   - **b.** Contractor has made an assignment for the benefit of creditors, has admitted in writing its inability to pay debts as they mature, or has ceased operating in the normal course of business;
   - **c.** a trustee or receiver of the Contractor or of any substantial part of the Contractor's assets has been appointed by a court;
   - **d.** fraud, misappropriation, embezzlement, malfeasance, misfeasance, or illegal conduct pertaining to performance under the contract by its Contractor, its employees, officers, directors, or shareholders;
   - **e.** an involuntary proceeding has been commenced by any Party against the Contractor under any one of the chapters of Title 11 of the United States Code and (i) the proceeding has been pending for at least sixty (60) calendar days; or (ii) the Contractor has consented, either expressly or by operation of law, to the entry of an order for relief; or (iii) the Contractor has been decreed or adjudged a debtor;
   - **f.** a voluntary petition has been filed by the Contractor under any of the chapters of Title 11 of the United States Code;
   - **g.** Contractor intentionally discloses confidential information;
   - **h.** Contractor has or announces it will discontinue support of the deliverable; and,
   - **i.** In the event funding is no longer available.

**Q. CONTRACT CLOSEOUT**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

Upon contract closeout for any reason the Contractor shall within 30 days, unless stated otherwise herein:

1. Transfer all completed or partially completed deliverables to the State;
2. Transfer ownership and title to all completed or partially completed deliverables to the State;
3. Return to the State all information and data, unless the Contractor is permitted to keep the information or data by contract or rule of law. Contractor may retain one copy of any information or data as required to comply with applicable work product documentation standards or as are automatically retained in the course of Contractor's routine back up procedures;
4. Cooperate with any successor Contactor, person or entity in the assumption of any or all of the obligations of this contract;

5. Cooperate with any successor Contactor, person or entity with the transfer of information or data related to this contract;
6. Return or vacate any state owned real or personal property; and,
7. Return all data in a mutually acceptable format and manner.

Nothing in this Section should be construed to require the Contractor to surrender intellectual property, real or personal property, or information or data owned by the Contractor for which the State has no legal claim.

## III. CONTRACTOR DUTIES

### A. INDEPENDENT CONTRACTOR / OBLIGATIONS

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

It is agreed that the Contractor is an independent contractor and that nothing contained herein is intended or should be construed as creating or establishing a relationship of employment, agency, or a partnership.

The Contractor is solely responsible for fulfilling the contract. The Contractor or the Contractor's representative shall be the sole point of contact regarding all contractual matters.

The Contractor shall secure, at its own expense, all personnel required to perform the services under the contract. The personnel the Contractor uses to fulfill the contract shall have no contractual or other legal relationship with the State; they shall not be considered employees of the State and shall not be entitled to any compensation, rights or benefits from the State, including but not limited to, tenure rights, medical and hospital care, sick and vacation leave, severance pay, or retirement benefits.

By-name personnel commitments made in the Contractor's proposal shall not be changed without the prior written approval of the State. Replacement of these personnel, if approved by the State, shall be with personnel of equal or greater ability and qualifications.

All personnel assigned by the Contractor to the contract shall be employees of the Contractor or a subcontractor, and shall be fully qualified to perform the work required herein. Personnel employed by the Contractor or a subcontractor to fulfill the terms of the contract shall remain under the sole direction and control of the Contractor or the subcontractor respectively.

With respect to its employees, the Contractor agrees to be solely responsible for the following:

1. Any and all pay, benefits, and employment taxes and/or other payroll withholding;
2. Any and all vehicles used by the Contractor's employees, including all insurance required by state law;
3. Damages incurred by Contractor's employees within the scope of their duties under the contract;
4. Maintaining Workers' Compensation and health insurance that complies with state and federal law and submitting any reports on such insurance to the extent required by governing law; and
5. Determining the hours to be worked and the duties to be performed by the Contractor's employees.
6. All claims on behalf of any person arising out of employment or alleged employment (including without limit claims of discrimination alleged against the Contractor, its officers, agents, or subcontractors or subcontractor's employees)

If the Contractor intends to utilize any subcontractor, the subcontractor's level of effort, tasks, and time allocation should be clearly defined in the bidder's proposal. The Contractor shall agree that it will not utilize any subcontractors not specifically included in its proposal in the performance of the contract without the prior written authorization of the State.

The State reserves the right to require the Contractor to reassign or remove from the project any Contractor or subcontractor employee.

Contractor shall insure that the terms and conditions contained in any contract with a subcontractor does not conflict with the terms and conditions of this contract.

The Contractor shall include a similar provision, for the protection of the State, in the contract with any Subcontractor engaged to perform work on this contract.

**B. EMPLOYEE WORK ELIGIBILITY STATUS**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

The Contractor is required and hereby agrees to use a federal immigration verification system to determine the work eligibility status of employees physically performing services within the State of Nebraska. A federal immigration verification system means the electronic verification of the work authorization program authorized by the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, 8 U.S.C. 1324a, known as the E-Verify Program, or an equivalent federal program designated by the United States Department of Homeland Security or other federal agency authorized to verify the work eligibility status of an employee.

If the Contractor is an individual or sole proprietorship, the following applies:

1. The Contractor must complete the United States Citizenship Attestation Form, available on the Department of Administrative Services website at http://das.nebraska.gov/materiel/purchasing.html

   The completed United States Attestation Form should be submitted with the RFP response.

2. If the Contractor indicates on such attestation form that he or she is a qualified alien, the Contractor agrees to provide the US Citizenship and Immigration Services documentation required to verify the Contractor's lawful presence in the United States using the Systematic Alien Verification for Entitlements (SAVE) Program.

3. The Contractor understands and agrees that lawful presence in the United States is required and the Contractor may be disqualified or the contract terminated if such lawful presence cannot be verified as required by Neb. Rev. Stat. §4-108.

**C. COMPLIANCE WITH CIVIL RIGHTS LAWS AND EQUAL OPPORTUNITY EMPLOYMENT / NONDISCRIMINATION (Statutory)**

The Contractor shall comply with all applicable local, state, and federal statutes and regulations regarding civil rights laws and equal opportunity employment. The Nebraska Fair Employment Practice Act prohibits Contractors of the State of Nebraska, and their Subcontractors, from discriminating against any employee or applicant for employment, with respect to hire, tenure, terms, conditions, compensation, or privileges of employment because of race, color, religion, sex, disability, marital status, or national origin (Neb. Rev. Stat. §48-1101 to 48-1125). The Contractor guarantees compliance with the Nebraska Fair Employment Practice Act, and breach of this provision shall be regarded as a material breach of contract. The Contractor shall insert a similar provision in all Subcontracts solely and exclusively engaged for services to be covered by any contract resulting from this RFP.

## D. COOPERATION WITH OTHER CONTRACTORS

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
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Contractor may be required to work with or in close proximity to other contractors or individuals that may be working on same or different projects. The Contractor shall agree to cooperate with such other contractors or individuals, and shall not commit or permit any act which may interfere with the performance of work by any other contractor or individual. Contractor is not required to compromise Contractor's intellectual property or proprietary information unless expressly required to do so by this contract.

## E. PERMITS, REGULATIONS, LAWS

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The contract price shall include the cost of all royalties, licenses, permits, and approvals, whether arising from patents, trademarks, copyrights or otherwise, that are in any way involved in the contract. The Contractor shall obtain and pay for all royalties, licenses, and permits, and approvals necessary for the execution of the contract. The Contractor must guarantee that it has the full legal right to the materials, supplies, equipment, software, and other items used to execute this contract.

## F. OWNERSHIP OF INFORMATION AND DATA / DELIVERABLES

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

The State shall have the unlimited right to publish, duplicate, use, and disclose all information and data developed or obtained by the Contractor on behalf of the State pursuant to this contract.

The State shall own and hold exclusive title to any deliverable developed as a result of this contract. Contractor shall have no ownership interest or title, and shall not patent, license, or copyright, duplicate, transfer, sell, or exchange, the design, specifications, concept, or deliverable.

Nothing in this Agreement is intended to transfer any ownership or other intellectual property rights, including patent, trademark and copyrights, to any tools, software, processes, methodology, know-how or technology, licensed, developed or owned by Guardian prior to, or independent of, Guardian's engagement hereunder.

## G. INSURANCE REQUIREMENTS

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | Please review our redline deviations below. |

The Contractor shall throughout the term of the contract maintain insurance as specified herein and provide the State a current Certificate of Insurance/Acord Form (COI) verifying the coverage. The Contractor shall not commence work on the contract until the insurance is in place. ~~If Contractor subcontracts any portion of the Contract the Contractor must, throughout the term of the contract, either:~~

~~1. Provide equivalent insurance for each subcontractor and provide a COI verifying the coverage for the subcontractor;~~
~~2. Require each subcontractor to have equivalent insurance and provide written notice to the State that the Contractor has verified that each subcontractor has the required coverage; or,~~
~~3. Provide the State with copies of each subcontractor's Certificate of Insurance evidencing the required coverage.~~

~~The Contractor shall not allow any Subcontractor to commence work until the Subcontractor has equivalent insurance. The failure of the State to require a COI, or the failure of the Contractor to provide a COI or require subcontractor insurance shall not limit, relieve, or decrease the liability of the Contractor hereunder.~~

In the event that any policy written on a claims-made basis terminates or is canceled during the term of the contract or within one (1) year of termination or expiration of the contract, the contractor shall obtain an extended discovery or reporting period, or a new insurance policy, providing coverage required by this contract for the term of the contract and one (1) year following termination or expiration of the contract.

If by the terms of any insurance a mandatory deductible is required, or if the Contractor elects to increase the mandatory deductible amount, the Contractor shall be responsible for payment of the amount of the deductible in the event of a paid claim.

Notwithstanding any other clause in this Contract, the State may recover up to the liability limits of the insurance policies required herein.

### ~~4.~~1. WORKERS' COMPENSATION INSURANCE

The Contractor shall take out and maintain during the life of this contract the statutory Workers' Compensation and Employer's Liability Insurance for all of the contactors' employees to be engaged in work on the project under this contract and, in case any such work is sublet, the Contractor shall ~~require the Subcontractor similarly to~~ provide Worker's Compensation and Employer's Liability Insurance for all of ~~the Subcontractor's~~ employees to be engaged in such work. This policy shall be written to meet the statutory requirements for the state in which the work is to be performed, including Occupational Disease. **The policy shall include a waiver of subrogation in favor of the State. The COI shall contain the mandatory COI subrogation waiver language found hereinafter**. The amounts of such insurance shall not be less than the limits stated hereinafter. For employees working in the State of Nebraska, the policy must be written by an entity authorized by the State of Nebraska Department of Insurance to write Workers' Compensation and Employer's Liability Insurance for Nebraska employees.

### ~~5.~~2. COMMERCIAL GENERAL LIABILITY INSURANCE AND COMMERCIAL AUTOMOBILE LIABILITY INSURANCE

The Contractor shall take out and maintain during the life of this contract such Commercial General Liability Insurance and Commercial Automobile Liability Insurance as shall protect Contractor ~~and any Subcontractor~~ performing work covered by this contract from claims for damages for bodily injury, including death, as well as from claims for property damage, which may arise from operations under this contract, whether such operation be by the Contractor ~~or by any Subcontractor~~ or by anyone directly or indirectly employed by either of them, and the amounts of such insurance shall not be less than limits stated hereinafter.

The Commercial General Liability Insurance shall be written on an **occurrence basis**, and provide Premises/Operations, Products/Completed Operations, Independent Contractors, Personal Injury, and Contractual Liability coverage. **The policy shall include the State, and others as required by the contract documents, as Additional Insured(s). This policy shall be primary, and any insurance or self-insurance carried by the State shall be considered secondary and non-contributory. The COI shall contain the mandatory COI liability waiver language found hereinafter.** The Commercial Automobile Liability Insurance shall be written to cover all Owned, Non-owned, and Hired vehicles.

| REQUIRED INSURANCE COVERAGE | |
|---|---|
| **COMMERCIAL GENERAL LIABILITY** | |
| General Aggregate | $1,000,000 per occurrence / $2,000,000 aggregate |
| Products/Completed Operations Aggregate | $2,000,000 |
| Personal/Advertising Injury | $1,000,000 per occurrence |
| Bodily Injury/Property Damage | $1,000,000 per occurrence |
| Medical Payments | $10,000 any one person |
| Damage to Rented Premises (Fire) | $300,000 each occurrence |
| Contractual | Included |
| Independent Contractors | Included |
| ***If higher limits are required, the Umbrella/Excess Liability limits are allowed to satisfy the higher limit.*** | |
| **WORKER'S COMPENSATION** | |
| Employers Liability Limits | $500K/$500K/$500K |
| Statutory Limits- All States | Statutory - State of Nebraska |
| Voluntary Compensation | Statutory |
| **COMMERCIAL AUTOMOBILE LIABILITY** | |
| Bodily Injury/Property Damage | $1,000,000 combined single limit |
| Include All Owned, Hired & Non-Owned Automobile liability | Included |
| Motor Carrier Act Endorsement | Where Applicable |
| **UMBRELLA/EXCESS LIABILITY** | |
| Over Primary Insurance | $3,000,000 per occurrence |
| **PROFESSIONAL LIABILITY** | |
| Professional liability (Medical Malpractice) | Limits consistent with Nebraska Medical Malpractice Cap |
| Qualification Under Nebraska Excess Fund | |
| All Other Professional Liability (Errors & Omissions) | $10,000,000 Per Claim / $20,000,000 Aggregate |
| **COMMERCIAL CRIME** | |
| Crime/Employee Dishonesty Including 3rd Party Fidelity | $2,000,000 |
| **CYBER LIABILITY** | |
| Breach of Privacy, Security Breach, Denial of Service, Remediation, where insurable by law, Fines and Penalties | $2,000,000 |
| **MANDATORY COI SUBROGATION WAIVER LANGUAGE** | |
| "Workers' Compensation policy shall include a waiver of subrogation in favor of the State of Nebraska." | |
| **MANDATORY COI LIABILITY WAIVER LANGUAGE** | |
| "Commercial General Liability & Commercial Automobile Liability policies shall name the State of Nebraska as an Additional Insured and the policies shall be primary and any insurance or self-insurance carried by the State shall be considered secondary and non-contributory as additionally insured." | |

If the mandatory COI subrogation waiver language or mandatory COI liability waiver language on the COI states that the waiver is subject to, condition upon, or otherwise limit by the insurance policy, a copy of the relevant sections of the policy must be submitted with the COI so the State can review the limitations imposed by the insurance policy.

**~~6.~~3. EVIDENCE OF COVERAGE**

The Contractor shall furnish the Contract Manager, with a certificate of insurance coverage complying with the above requirements prior to beginning work at:

Department of Administrative Services
Employee Wellness and Benefits
Attn: Contract Manager
1526 K Street, Suite 110
Lincoln, NE 68508
These certificates or the cover sheet shall reference the RFP number, and the certificates shall include the name of the company, policy numbers, effective dates, dates of expiration, and amounts and types of coverage afforded. If the State is damaged by the failure of the Contractor to maintain such insurance, then the Contractor shall be responsible for all reasonable costs properly attributable thereto.

Reasonable notice of cancellation of any required insurance policy must be submitted to the contract manager as listed above when issued and a new coverage binder shall be submitted immediately to ensure no break in coverage.

**~~7.~~4. DEVIATIONS**

The insurance requirements are subject to limited negotiation. Negotiation typically includes, but is not necessarily limited to, the correct type of coverage, necessity for Workers' Compensation, and the type of automobile coverage carried by the Contractor.

## H. ANTITRUST

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The Contractor hereby assigns to the State any and all claims for overcharges as to goods and/or services provided in connection with this contract resulting from antitrust violations which arise under antitrust laws of the United States and the antitrust laws of the State.

## I. CONFLICT OF INTEREST

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

By submitting a proposal, bidder certifies that, to the best of its knowledge and belief, there does not now exist a relationship between the bidder and any person or entity which is or gives the appearance of a conflict of interest related to this RFP or project. The bidder certifies that it shall not take any action or acquire any interest, ~~either~~ directly ~~or indirectly~~, which will conflict in any manner or degree with the performance of its services hereunder or which creates an actual or an appearance of conflict of interest. The bidder certifies that it will not knowingly employ any individual known by bidder to have a conflict of interest. The bidder is a mutual insurer owned by its policyholders and cannot make any representations on behalf of its policyholders

The Parties shall not knowingly, for a period of two years after execution of the contract, recruit or employ any employee ~~or agent~~ of the other Party who has worked on the RFP or project, or who had any influence on decisions affecting the RFP or project.

**J. SITE RULES AND REGULATIONS**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

The Contractor shall use its ~~best~~ commercially reasonable efforts to ensure that its employees, agents, and Subcontractors comply with site rules and regulations while on State premises. If the Contractor must perform on-site work outside of the daily operational hours set forth by the State, it must make arrangements with the State to ensure access to the facility and the equipment has been arranged. No additional payment will be made by the State on the basis of lack of access, unless the State fails to provide access as agreed to in writing between the State and the Contractor.

**K. ADVERTISING**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The Contractor agrees not to refer to the contract award in advertising in such a manner as to state or imply that the company or its services are endorsed or preferred by the State. Any publicity releases pertaining to the project shall not be issued without prior written approval from the State.

**L. NEBRASKA TECHNOLOGY ACCESS STANDARDS (Statutory)**

Contractor shall review the Nebraska Technology Access Standards, found at http://nitc.nebraska.gov/standards/2-201.html and ensure that products and/or services provided under the contract are in compliance or will comply with the applicable standards to the greatest degree possible. In the event such standards change during the Contractor's performance, the State may create an amendment to the contract to request the contract comply with the changed standard at a cost mutually acceptable to the parties.

### M. DISASTER RECOVERY/BACK UP PLAN

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

The Contractor shall have a disaster recovery and back-up plan, of which a copy should be provided upon request to the State, which includes, but is not limited to equipment, personnel, facilities, and transportation, in order to continue services as specified under the specifications in the contract in the event of a disaster.

### N. DRUG POLICY

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| aP | | | |

Contractor certifies it maintains a drug free work place environment to ensure worker safety and workplace integrity. Contractor agrees to provide a copy of its drug free workplace policy at any time upon request by the State.

## IV. PAYMENT

### A. PROHIBITION AGAINST ADVANCE PAYMENT (Statutory)

Payments shall not be made until contractual deliverable(s) are received and accepted by the State.

### B. TAXES (Statutory)

The State is not required to pay taxes and assumes no such liability as a result of this solicitation. Any property tax payable on the Contractor's equipment which may be installed in a state-owned facility is the responsibility of the Contractor.

## C. INVOICES

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

Invoices for payments must be submitted by the Contractor to the agency requesting the services with sufficient detail to support payment. Invoices should be sent to Department of Administrative Services, Employee Wellness and Benefits, 1526 K Street, Suite 110, Lincoln, NE 68508.

The invoice must contain the State's Account number and or ID number and the Coverage Period being billed. The invoice must list each plan and rates for the plans. Premiums are deducted via payroll on a Bi-Weekly and/or Monthly basis. After the close of business each month the total premiums deducted are paid to the Contractor via ACH payment. Premiums are not paid in advance. Example, August premiums would not be paid to the Contractor until after close of business on August 31st. In the example above, the 45 days starts on September 1st. As premiums are sent via ACH an Excel or PDF Report will be generated and provided to the Contractor by the State as backup documentation for the premiums paid. The report is produced manually and date of completion may vary from month to month.

The terms and conditions included in the Contractor's invoice shall be deemed to be solely for the convenience of the parties. No terms or conditions of any such invoice shall be binding upon the State, and no action by the State, including without limitation the payment of any such invoice in whole or in part, shall be construed as binding or estopping the State with respect to any such term or condition, unless the invoice term or condition has been previously agreed to by the State as an amendment to the contract. Payment of premium shall be in accordance with the terms of the insurance policy(ies) issued by Contractor.

## D. INSPECTION AND APPROVAL

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

Final inspection and approval of all work required under the contract shall be performed by the designated State officials.

To the extent permitted by law, including privacy laws and regulations, ~~T~~the State and/or its authorized representatives by giving 30 days' prior written notice to Contractor, shall have the right to enter any premises where the Contractor or Subcontractor duties under the contract are being performed, and to inspect, monitor or otherwise evaluate the work being performed. All inspections and evaluations shall be at reasonable times and in a manner that will not unreasonably delay work. The manner, duration and scope of the review shall also be agreed upon in advance by the Parties. Prior to commencing any audit or inspection, the Parties shall, enter into a Confidentiality Agreement

**E. PAYMENT**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | AP | Please review our redline deviations below. |

State will render payment to Contractor when the terms and conditions of the contract and specifications have been satisfactorily completed on the part of the Contractor as solely determined by the State. (Neb. Rev. Stat. Section 73-506(1)) Payment will be made by the responsible agency in compliance with the State of Nebraska Prompt Payment Act (See Neb. Rev. Stat. §81-2401 through 81-2408). The State may require the Contractor to accept payment by electronic means such as ACH deposit. In no event shall the State be responsible or liable to pay for any services provided by the Contractor prior to the Effective Date of the contract, and the Contractor hereby waives any claim or cause of action for any such services. Payment of premium shall be in accordance with the terms of the insurance policy(ies) issued by Contractor.

**F. LATE PAYMENT (Statutory)**

The Contractor may charge the responsible agency interest for late payment in compliance with the State of Nebraska Prompt Payment Act (See Neb. Rev. Stat. §81-2401 through 81-2408).

**G. SUBJECT TO FUNDING / FUNDING OUT CLAUSE FOR LOSS OF APPROPRIATIONS**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| AP | | | |

The State's obligation to pay amounts due on the Contract for a fiscal years following the current fiscal year is contingent upon legislative appropriation of funds. Should said funds not be appropriated, the State may terminate the contract with respect to those payments for the fiscal year(s) for which such funds are not appropriated. The State will give the Contractor written notice thirty (30) calendar days prior to the effective date of termination. All obligations of the State to make payments after the termination date will cease. The Contractor shall be entitled to receive just and equitable compensation for any authorized work which has been satisfactorily completed as of the termination date. In no event shall the Contractor be paid for a loss of anticipated profit.

**H. RIGHT TO AUDIT (First Paragraph is Statutory)**

| Accept (Initial) | Reject (Initial) | Reject & Provide Alternative within RFP Response (Initial) | NOTES/COMMENTS: |
|---|---|---|---|
| | | aP | **Please review our redline deviations below.** |

To the extent permitted by law, including privacy laws and regulations, ~~T~~the State shall have the right to audit the Contractor's performance of this contract upon a 30 days' written notice. Contractor shall utilize generally accepted accounting principles, and shall maintain the accounting records, and other records and information relevant to the contract (Information) to enable the State to audit the contract. Subject to a mutually agreed Confidentiality Agreement, ~~T~~the State may audit and the Contractor shall maintain, the Information during the term of the contract and for a period of five (5) years after the completion of this contract or until all issues or litigation are resolved, whichever is earlier ~~later~~. The Contractor shall make the Information available to the State at Contractor's place of business or a location acceptable to both Parties during normal business hours. If this is not practical or the Contractor so elects, the Contractor may provide electronic or paper copies of the Information. The State reserves the right to examine, make copies of, and take notes on any Information relevant to this contract, regardless of the form or the Information, how it is stored, or who possesses the Information. Under no circumstance will the Contractor be required to create or maintain documents not kept in the ordinary course of contractor's business operations, nor will contractor be required to disclose any information, including but not limited to product cost data, which is confidential or proprietary to contractor.

The State ~~Parties~~ shall pay ~~their own~~ costs of the audit. ~~unless the audit finds a previously undisclosed overpayment by the State. If a previously undisclosed overpayment exceeds one-half of one percent (.5%) of the total contract billings, or if fraud, material misrepresentations, or non-performance is discovered on the part of the Contractor, the Contractor shall reimburse the State for the total costs of the audit. Overpayments and audit costs owed to the State shall be paid within ninety days of written notice of the claim.~~ The Contractor agrees to correct any material weaknesses or condition found as a result of the audit.

## V. PROJECT DESCRIPTION AND SCOPE OF WORK

### A. PROJECT OVERVIEW

The State of Nebraska ("the State"), through Administrative Services, provides State employees access to life insurance. The State is seeking proposals from qualified life insurance companies to provide a fully-insured Life Insurance Plans for the State of Nebraska employees for approximately 16,125 eligible state employees effective on July 1, 2019. The State is committed to offering a life insurance program which promotes cost-effective services. The current provider is Aetna under Contract 55660 O4.

The State's objectives are:

1. Minimize the cost and rate of future rate increases.
2. Improve employee satisfaction with the life insurance program.
3. Establish performance targets to assess and monitor carrier's performance.
4. Provide portability and conversion provisions to employees.

### B. PROJECT ENVIRONMENT

The State provides eligible permanent full-time employees with a basic life insurance benefit of $20,000 at no cost to the employee and to eligible permanent part-time employees for a minimal monthly charge. It is mandatory for all full-time employees to enroll for the $20,000 basic life insurance. Part-time employees have the option to choose to enroll in the coverage.

At the employees' expense, the State makes Supplemental Life Insurance (Employee), Supplemental Life Insurance (Dependent) and Accidental Death and Dismemberment (AD&D) insurance available to all eligible permanent and part-time employees.

Employees currently may purchase supplemental life in the amount of .5x, 1x, 1.5x, 2x, 3x, 4x and 5x their annual salary.

Eligible employees may elect supplemental life insurance for their spouse and dependent child(ren) up to age 26. The plan must offer two dependent life options to choose from and both include coverage for spouse and or child(ren). Eligible employees must be enrolled in Basic Life to elect Supplemental Life and AD&D insurance.

Currently a Waiver of Premium is in place. Contractor must provide a conversion option available for any employee that leaves employment and wants to take their current coverage with them. The employee will be responsible for the cost. (The cost will not be related to group coverage with the State.)

Employees who have been approved for the life waiver of premium prior to the effective date of July 1, 2019, will remain the liability of the current life insurance company.

The current insurance plan includes coverage for three State of Nebraska employee groups: Active Nebraska Department of Labor (NDOL) employees employed prior to July 1, 1991; Retired NDOL employees; and all other Eligible Permanent Employees with the State of Nebraska. Group life benefits vary by these groups as described in Attachment B: Plan Structure – Basic and Supplemental.

The Contractor must offer the exact same current plan to the NDOL employees due to NDOL employees being grandfathered into the Plan. There will not be any new enrollees added to this group.

Of the State's approximately **16,125** eligible permanent employees, approximately **15,158** are enrolled in the current basic life plan. The State maintains the same life insurance plans for employees under the labor contract as it does for those who are not covered under the labor contract. The premium contribution for Supplemental Life Insurance (Employee), Supplemental Life Insurance (Dependent) and Accidental Death and Dismemberment (AD&D) insurance is 100% by the employee.

A census with the current participation in both basic and supplemental life is available in Attachment C: Census Report. The current rates have been in effect since July 1, 2013. The Current Rate Structure – Supplemental Life, Dependent Life and AD&D can be found in Attachment D: Current Rates. Claim Experience and Premium History can be found in Attachment E.

**C. CONTRACTOR REQUIREMENTS**

Bidder to complete Attachment A: Contractor Requirements Matrix

## VI. PROPOSAL INSTRUCTIONS

This section documents the requirements that should be met by bidders in preparing the Technical and Cost Proposal. Bidders should identify the subdivisions of "Project Description and Scope of Work" clearly in their proposals; failure to do so may result in disqualification. Failure to respond to a specific requirement may be the basis for elimination from consideration during the State's comparative evaluation.

Proposals are due by the date and time shown in the Schedule of Events. Content requirements for the Technical and Cost Proposal are presented separately in the following subdivisions; format and order:

**A. PROPOSAL SUBMISSION**

**1. REQUEST FOR PROPOSAL FORM**

By signing the "RFP for Contractual Services" form, the bidder guarantees compliance with the provisions stated in this RFP, agrees to the Terms and Conditions stated in this RFP unless otherwise agreed to, and certifies bidder maintains a drug free work place environment.

The RFP for Contractual Services form must be signed using an indelible method (not electronically) and returned per the schedule of events in order to be considered for an award.

Sealed proposals must be received in the State Purchasing Bureau by the date and time of the proposal opening per the Schedule of Events. No late proposals will be accepted. No electronic, e-mail, fax, voice, or telephone proposals will be accepted.

It is the responsibility of the bidder to check the website for all information relevant to this solicitation to include addenda and/or amendments issued prior to the opening date. Website address is as follows: http://das.nebraska.gov/materiel/purchasing.html

Further, Sections II through VII must be completed and returned with the proposal response.

**2. CORPORATE OVERVIEW**

The Corporate Overview section of the Technical Proposal should consist of the following subdivisions:

**a. BIDDER IDENTIFICATION AND INFORMATION**

The bidder should provide the full company or corporate name, address of the company's headquarters, entity organization (corporation, partnership, proprietorship), state in which the bidder is incorporated or otherwise organized to do business, year in which the bidder first organized to do business and whether the name and form of organization has changed since first organized.

**b. FINANCIAL STATEMENTS**

The bidder should provide financial statements applicable to the firm. If publicly held, the bidder should provide a copy of the corporation's most recent audited financial reports and statements, and the name, address, and telephone number of the fiscally responsible representative of the bidder's financial or banking organization.

If the bidder is not a publicly held corporation, either the reports and statements required of a publicly held corporation, or a description of the organization, including size, longevity, client base, areas of specialization and expertise, and any other pertinent information, should be submitted in such a manner that proposal evaluators may reasonably formulate a determination about the stability and financial strength of the organization. Additionally, a non-publicly held firm should provide a banking reference.

The bidder must disclose any and all judgments, pending or expected litigation, or other real or potential financial reversals, which might materially affect the viability or stability of the organization, or state that no such condition is known to exist.

The State may elect to use a third party to conduct credit checks as part of the corporate overview evaluation.

**c. CHANGE OF OWNERSHIP**

If any change in ownership or control of the company is anticipated during the twelve (12) months following the proposal due date, the bidder should describe the circumstances of such change and indicate when the change will likely occur. Any change of ownership to an awarded vendor(s) will require notification to the State.

**d. OFFICE LOCATION**

The bidder's office location responsible for performance pursuant to an award of a contract with the State of Nebraska should be identified.

**e. RELATIONSHIPS WITH THE STATE**

The bidder should describe any dealings with the State over the previous three (3) years. If the organization, its predecessor, or any Party named in the bidder's proposal response has contracted with the State, the bidder should identify the contract number(s) and/or any other information available to identify such contract(s). If no such contracts exist, so declare.

**f. BIDDER'S EMPLOYEE RELATIONS TO STATE**

If any Party named in the bidder's proposal response is or was an employee of the State within the past two (2) years, identify the individual(s) by name, State agency with whom employed, job title or position held with the State, and separation date. If no such relationship exists or has existed, so declare.

If any employee of any agency of the State of Nebraska is employed by the bidder or is a Subcontractor to the bidder, as of the due date for proposal submission, identify all such persons by name, position held with the bidder, and position held with the State (including job title and agency). Describe the responsibilities of such persons within the proposing organization. If, after review of this information by the State, it is determined that a conflict of interest exists or may exist, the bidder may be disqualified from further consideration in this proposal. If no such relationship exists, so declare.

**g. CONTRACT PERFORMANCE**

If the bidder or any proposed Subcontractor has had a contract terminated for default during the past three (3) years, all such instances must be described as required below to the extent it materially impacts the provision of services hereunder and subject to confidentiality obligations. Termination for default is defined as a notice to stop performance delivery due to the bidder's non-performance or poor performance, and the issue was either not litigated due to inaction on the part of the bidder or litigated and such litigation determined the bidder to be in default.

It is mandatory that the bidder submit full details of all termination for default experienced during the past three (3) years, including the other Party's name, address, and telephone number. The response to this section must present the bidder's position on the matter. The State will evaluate the facts and will score the bidder's proposal accordingly. If no such termination for default has been experienced by the bidder in the past three (3) years, so declare.

If at any time during the past three (3) years, the bidder has had a contract terminated for convenience, non-performance, non-allocation of funds, or any other reason, describe fully all circumstances surrounding such termination, including the name and address of the other contracting Party.

**h. SUMMARY OF BIDDER'S CORPORATE EXPERIENCE**

The bidder should provide a summary matrix listing the bidder's previous projects similar to this RFP in size, scope, and complexity. The State will use no more than three (3) narrative project descriptions submitted by the bidder during its evaluation of the proposal.

The bidder should address the following:

i. Provide narrative descriptions to highlight the similarities between the bidder's experience and this RFP. These descriptions should include:

   **a)** The time period of the project;
   **b)** The scheduled and actual completion dates;
   **c)** The Contractor's responsibilities;
   **d)** For reference purposes, a customer name (including the name of a contact person, a current telephone number, a facsimile number, and e-mail address); and
   **e)** Each project description should identify whether the work was performed as the prime Contractor or as a Subcontractor. If a bidder performed as the prime Contractor, the description should provide the originally scheduled completion date and budget, as well as the actual (or currently planned) completion date and actual (or currently planned) budget.

ii. Contractor and Subcontractor(s) experience should be listed separately. Narrative descriptions submitted for Subcontractors should be specifically identified as Subcontractor projects.

iii. If the work was performed as a Subcontractor, the narrative description should identify the same information as requested for the Contractors above. In addition, Subcontractors should identify what share of contract costs, project responsibilities, and time period were performed as a Subcontractor.

**i. SUMMARY OF BIDDER'S PROPOSED PERSONNEL/MANAGEMENT APPROACH**

The bidder should present a detailed description of its proposed approach to the management of the project.

The bidder should identify the specific professionals who will work on the State's project if their company is awarded the contract resulting from this RFP. The names and titles of the team proposed for assignment to the State project should be identified in full, with a description of the team leadership, interface and support functions, and reporting relationships. The primary work assigned to each person should also be identified.

The bidder should provide resumes for all personnel proposed by the bidder to work on the project. The State will consider the resumes as a key indicator of the bidder's understanding of the skill mixes required to carry out the requirements of the RFP in addition to assessing the experience of specific individuals.

Resumes should not be longer than three (3) pages. Resumes should include, at a minimum, academic background and degrees, professional certifications, understanding of the process, and at least three (3) references (name, address, and telephone number) who can attest to the competence and skill level of the individual. Any changes in proposed personnel shall only be implemented after written approval from the State.

**j. SUBCONTRACTORS**

If the bidder intends to Subcontract_-any part of its performance hereunder, the bidder should provide:

- **i.** name, address, and telephone number of the Subcontractor(s);
- **ii.** specific tasks for each Subcontractor(s);
- **iii.** percentage of performance hours intended for each Subcontract; and
- **iv.** total percentage of Subcontractor(s) performance hours.

"Subcontractor" for the purposes of this RFP is a person or vendor retained solely and exclusively by bidder to provide services for the benefit of the State.

**3. TECHNICAL APPROACH**

The technical approach section of the Technical Proposal should consist of the following subsections:

- **a.** Understanding of the project requirements;
- **b.** Proposed development approach;
- **c.** Technical considerations;
- **d.** Detailed project work plan; and
- **e.** Deliverables and due dates.

4

# Technical Approach

# REVISED Attachment A

## Contractor Requirements Matrix

## Request for Proposal Number 5953 Z1

## Bidder Name: The Guardian Life Insurance Company of America

Bidders should provide a response to each of the following Contractor requirements below.

| | CONTRACT ADMINISTRATION |
|---|---|
| 1. | **Contractor must include a Waiver of Premium provision for employees becoming disabled on or after the program effective date of July 1, 2019.** |
| | Response: Confirmed. Waiver of Premium is included. If an employee becomes totally disabled prior to age 60, insurance will continue until SSNRA or no longer disabled, six- month elimination period. Waiver ends if outside of the U.S. or Canada for six months in a 12-month period. |
| 2. | **Provide the Schedule of Life Insurance Benefits including all options (.5x, 1x, 1.5x, 2x, 3x, 4x and 5x annual salary) and the Basic and Supplemental Aggregate Maximum and Minimum coverage. State if you allow exceptions in excess of the maximum amount of 5x. Example: An employee may elect 5x their salary which exceeds the maximum coverage.** |
| | Response: We are matching the current Basic Life benefits including $20,000 for Active Employees, and grandfathering benefits on closed active class and closed retiree class. Schedule of Voluntary Life Benefits include all options: 0.5X, 1X, 1.5X, 2X, 3X, 4X and 5X up to $1,000,000. Aggregate Basic and Voluntary Life maximum not to exceed $2,000,000. We can allow exceptions above the maximum if EOI is provided above amounts over $750,000. We are also matching the Dependent Life benefit options of $5,000 Low plan and $10,000 High plan. |
| 3. | **Provide coverage on a discontinuance and replacement basis (no loss, no gain) for eligible employees participating in the current plans on the effective date of the new coverage.** |
| | Response: Confirmed. |
| 4. | **Adhere to the inclusion of provisions to protect the State from multiple deaths in a single occurrence.** |
| | Response: We would administer the contract as it's written. |
| 5. | **Refrain from issuing any external communications material that mentions the State's benefit plans without written approval from the State. This includes newsletters and publications to agents, brokers and consultants.** |
| | Response: Confirmed. |
| 6. | **Provide ongoing assistance in administration, claim adjudication, and general problem solving. Periodic account servicing meetings will be held with the account manager and claims support group.** |
| | Response: Confirmed. |
| 7. | **Accept the current enrollment and beneficiary designations for the State's employees.** |
| | Response: Confirmed. We would be willing to accept the current enrollment eligibility and beneficiary designations as provided on the census and/or EDI file feed. If paper is used, it needs to be our Guardian filed enrollment form. |

| | |
|---|---|
| 8. | **Describe proof of loss required before a life or AD&D claim is filed.** |
| | Response: For Life or Accidental Death claims, beneficiaries and the State must complete and mail the following documentation in order to have claims verified:<br>• Employer and claimant sections of Life Claim Form<br>• Copy of an original, Certified Death Certificate<br>• Enrollment Form and/or Beneficiary Designation (ensures that the employee is enrolled on time and confirms the benefit amount(s) elected.<br>• Additional information may be required based on the type of claim and cause of death (i.e. toxicology report, police report, salary verification). A claimant may notify us by telephone and a claim will be opened, but he/she will still need to submit the required documentation by mail, fax or email.<br>The process does not differ for dependent Life claims, except for dependent confinement. If the loss occurs within two months from the effective date of the coverage, we would need to rule out that dependent confinement applies (i.e. the dependent was not confined to a hospital or hospice facility, or was unable to independently perform activities of daily living (ADL) such as eating bathing, dressing, ambulating, transferring and toileting).<br>For an Accidental Dismemberment claim, the employee and the State need to complete and mail the following documentation in order to have claims verified:<br>• Employer and claimant sections of Accidental Dismemberment form<br>• Enrollment form, if not already on file (ensures that the employee is enrolled on time and the benefit amount(s) elected. Medical documentation to support the loss |
| 9. | **Maintain an internal audit program and provide the State with a copy of the most recent internal audit report upon request.** |
| | Response: Confirmed. Upon request, we will share the results of our audits with the State. |
| 10. | **Review all plans, draft plan abstracts, and confirm plan provisions with the State.** |
| | Response: Confirmed. |
| 11. | **Draft, revise, and finalize the policy and benefit summaries (Summary Plan Descriptions (SPB)/booklets) for review by the State before February 12 of each calendar year.** |
| | Response: Confirmed. Plan documents are generally provided within 30 to 60 days of our receipt of all necessary plan information. |
| 12. | **Provide SPDs in an electronic format for access via internet or intranet.** |
| | Response: Confirmed; however, in lieu of SPDs, we will provide our certificate booklets include all state-mandated insurance provisions. |
| 13. | **Provide one claim office with a dedicated unit and an assigned account executive to assist the State in the ongoing administration of the program.** |
| | Response: Confirmed. |
| 14. | **Design, submit for approval, and print enrollment forms with the State's logo for use by plan participants to enroll, designate beneficiaries, and change their coverages, in accordance with plan provisions.** |
| | Response: To help educate and engage employees about their benefit plans, we provide customized enrollment kits that include detailed plan information and rates. Enrollment kits can be customized with plan name and logo. Our enrollment forms are standardly not customized, as they are filed forms with the Nebraska Department of Insurance. We are happy to discuss this further with the State and see how we can best serve the State. |

| | |
|---|---|
| 15. | **When customized printing is requested by the State, present a complete draft and subsequent proof to the State for sign-off. The Contractor must ensure that logo placement and color requirements are met. Contractor will be responsible for costs of printing booklets, certificates, or SPDs as required.** |
| | Response: Confirmed. |
| 16. | **Provide routine underwriting and actuarial services.** |
| | Response: Confirmed. |
| 17. | **Deliver an Administration Manual containing all user guidelines on such matters as eligibility, reports, plan summaries and procedures 60 days prior to plan year.** |
| | Response: Confirmed. |
| 18. | **Provide employer portal to monitor the status of claims, EOI, etc** |
| | Response: Confirmed. |
| 19. | **Communications (phone calls, emails) should be responded to within 24 hours. Describe your customer service process, including the hours of operation and methods of contact.** |
| | Response: Confirmed. Our service standard is to respond to phone calls and emails within 24 hours. Our Customer Response Unit maintains the following four locations across the U.S. to effectively serve our clients in all time zones: Appleton, Wisconsin; Spokane, Washington; Bethlehem, Pennsylvania; and Tempe, Arizona. The State and members can reach representatives by our toll free numbers Monday through Friday from 8:00 a.m. to 8:30 p.m. Eastern Time. Members can also email our Customer Service Unit and chat with a live representative via our secure website, www.guardiananytime.com. Chat is available from 8:00 a.m. to 8:00 p.m. Eastern Time, Monday through Friday. |
| 20. | **Maintain claim files to support payment, denials and appeals. Documentation must be legally acceptable and readily accessible.** |
| | Response: Confirmed. |
| 21. | **Indicate settlement processes and options available to beneficiaries. Specify the interest credit on claims from the date of death or proof of death until payment to beneficiary.** |
| | Response: Understanding that beneficiaries may face uncertain financial realities or changes in circumstances, we offer two convenient settlement options for claim payments:<br>• Lump sum payment by check: pays entire benefit to the beneficiary at one time. Generally, the claim payment amount less any interest is income tax free and allows the beneficiary to use as much as he/she needs and invest the remaining amount.<br>• Deposit to Guardian Retained Asset account: an interest-bearing draft account which allows the beneficiary to use as much as he/she needs at a given time (see below requirements). The claim amount is tax free; however, the accrued interest may be considered taxable income.<br>Our default payment option is a check sent via regular mail, unless the beneficiary has selected the Guardian Asset draft account. The beneficiary can withdraw money from this account as needed. The minimum withdrawal amount for those using this option is $250. He/she will receive monthly statements, and may, at the time of a claim, ask that proceeds be payable in one lump sum rather than maintained in the account. If the proceeds are payable to anyone other than the beneficiary (i.e., estate, funeral assignment, attorney), a check will be issued. The interest rate paid on the Guardian Asset account is set yearly by our Board of Directors. For 2018, the interest rate set by the Board is 1.5%.<br>For interest paid on Life claims, we follow state regulations for interest rates that we credit while a claim is undergoing administrative processing. Many states that mandate interest have mandated interest rates. If the state regulation does not cite a specific rate, we use the interest rate set by our Board of Directors. |

| | |
|---|---|
| 22. | **Make determinations with respect to submitted claims, including claim investigation and analysis prior to payment.** |
| | Response: Confirmed. |
| 23. | **100% of life claims will be processed within 15 business days of the receipt of required documentation.** |
| | Response: Confirmed. We maintain a five to seven business day average turnaround from the time all documentation is received, and an average 20-day turnaround from the time we receive 'initial notice' of a claim. |
| 24. | **Contractor must have a process for finding missing beneficiaries.** |
| | Response: Confirmed. |
| 25. | **Provide the exact same current plan to the NDOL employees due to NDOL employees being grandfathered into the Plan.** |
| | Response: Confirmed. |
| | **IMPLEMENTATION** |
| 26. | **Provide a detailed timeline and implementation plan including deadlines set forth in this RFP including State resources and personnel required.** |

Response: Your Implementation Manager will lead an implementation team consisting of a Key Account Manager, Executive Sales Consultant, and Account Service Manager, all of whom will work together to meet the State's needs during the implementation of your case. Your Implementation Manager will completely manage the on-boarding process including coordinating communication, timelines, and materials crucial to the process and will work with our internal areas to ensure the process runs smoothly. After your plan is in place, your Key Account Manager and Account Service Manager will continue to provide you with support going forward, to ensure day-to-day service and prompt answers to claims and billing questions.

The below implementation plan can be modified based on the State's needs.

| Implementation Activity | Responsibility | Target Date |
|---|---|---|
| **Carrier Selection** | The State | December 2018 |
| **Kick-off Meeting: Introduce Teams and Review:**<br>• Review sold plan design and rates<br>• Eligibility delivery and data requirements, timing<br>• Billing options/confirmation<br>• Enrollment communication needs, materials, on-site support<br>• Deliverables<br>• Ongoing meetings/status updates | The State and Guardian | January 2019 |
| **Follow-Up Implementation Status Meetings** | The State and Guardian | Ongoing |
| **Return Plan Documents to Guardian:**<br>Master Application, Actively at Work Statement | The State and Guardian | January 2019 |
| **Conduct Enrollment Meetings** | The State and Guardian | TBD based on client schedule |
| **Open Enrollment** | The State | TBD based on client schedule |

| | | | |
|---|---|---|---|
| | **Provide Final Eligibility File to Guardian/Initial Census** | The State and Guardian | May 2019 |
| | **Deliver Plan Documents for Review** | Guardian | May 2019 |
| | **Provide Initial Billing Statement** | Guardian | June 2019 |
| | **Provide Updated Actively at Work Statement for Life** | The State | June 2019 |
| | **Effective Date** | - | July 1, 2019 |
| | **Transition to Account Service Manager for Ongoing Support, Meetings, etc.** | Guardian | July 2019 |
| 27. | **Load, audit and insure clean eligibility data a minimum of 30 days prior to program effective date of July 1, 2019.** | | |
| | Response: Confirmed. Initial billing statements are generally provided within 30 to 60 days of our receipt of all necessary plan information. | | |
| 28. | **Identify any programs, systems, or administrative opportunities that your organization can provide during the implementation process that would be beneficial to the State.** | | |
| | Response: We offer a very personal approach to enrollment activity with our nationwide network of highly trained and licensed Benefit Counselors. From educational presentations, webinars, telephonic support or multichannel communications campaigns, we are your partner to ensure that our clients and their employees are assisted during every step of the implementation and enrollment process.<br><br>Depending on the complexity of your enrollment, we may start planning for enrollment meetings 60-90 days before the enrollment activity. To promote these meetings to employees, we provide consumer-friendly communication materials, such as emails, videos, web content, posters, benefit summaries and content for internal distribution. During the enrollment period, we offer multichannel support to generate employee understanding of, and participation in, their benefit programs:<br><br>• **Highly trained Benefit Counselors** are available to educate employees about their benefits plans and how to take advantage of their options. The group educational meetings they conduct are one of the best ways to ensure employees are fully informed and provide a valuable opportunity to answer employee questions and to encourage enrollment in the best plan(s) for themselves and their families.<br><br>• **Customized enrollment kits** provide virtually everything an employee needs to make an informed decision in one convenient document. Enrollment kits can be customized with plan name, logo, enrollment period and certain plan-specific details and provide information on the type of plan(s) available (e.g. Basic vs. Voluntary Life, etc), explanations of plan features and options, a glossary of terms, and instructions on how to enroll. Enrollment kits are available in English and Spanish.<br><br>• **Convenient, online enrollment platform** enables employees to enroll via our secure website, www.guardiananytime.com whether they are enrolling for the first time, re-enrolling during open enrollment, or making updates throughout the year.<br><br>• **Employee Benefits Hotline** is staffed by benefit professionals to answer any additional questions before and during the enrollment period. The hotline is available Monday through Friday from 7:00 a.m. to 8:30 p.m. Eastern Time. Support is available in over 170 languages. | | |
| 29. | **Attach a description of your conversion process and include a copy of your conversion request form, if applicable.** | | |
| | Response: Included. Please refer to the Conversion Feature Overview and Application for Conversion of Group Life Insurance in the Additional Forms and Attachments section of our response. | | |

| | |
|---|---|
| | **REPORTING** |
| 30. | **Monthly and quarterly claims paid/denied reports must be available no later than the end of the month following the close of the period in question.** |
| | Response: Confirmed. |
| 31. | **A year-end financial accounting for the program within 60 days of the contract anniversary date.** |
| | Response: Confirmed. |
| 32. | **Annual generation of eligibility listing in hard copy or online reporting. Describe your online reporting function(s).** |
| | Response: Our benefits administration website, www.guardiananytime.com, enables the State and its members to enroll, terminate and update benefits information for employees. This option is ideal for maintenance updates. Other advantages include:<br>• An eligibility report can be created and delivered electronically<br>• Updates (additions/terminations) occur in real-time depending on the timing and complexity of a request, or within 24 hours if manual intervention is required<br>• Staff can manage eligibility updates online or allow employees to make their own updates<br>• Easy access to history of online activities<br>• Ability to email questions directly to Guardian.<br>Our standard reports can also be accessed via our self-service portal, www.guardiananytime.com. We do not currently offer self-service online access to ad hoc reports. Our Account Management staff will happily work with the State to facilitate any ad hoc reporting requests. |
| | **PERFORMANCE GUARANTEES** |
| 33. | **Do you have a formal performance guarantee program? If so, please provide a copy.** |
| | Response: Yes. Please refer to the Service and Savings Commitment in the Additional Forms and Attachments section of our response. |
| | **BILLING** |
| 34. | **Attach a description of premium billing procedures. Include information on the timing of billing, billing-payment reconciliations, and ability to provide for client self-billing.** |
| | Response: Included. Please refer to the Planholder Billing Options and Procedures in the Additional Forms and Attachments section of our response. |

3. **TECHNICAL APPROACH**
**The technical approach section of the Technical Proposal should consist of the following subsections:**

**a. Understanding of the project requirements;**

We have reviewed and are able to meet all of the project requirements. We have the capability in all respects to perform fully and lawfully all requirements with integrity and reliability to assure good faith performance. We have conformed to all requirements of the solicitation document with the exception of the redline deviations included in Sections II through VI.

Our intention is to match current benefits. We have completed a preliminary contract comparison and are happy to discuss our contract upon finalist / won notification. Based on our preliminary contract comparison, below are the contract deviations:

- We are unable to match the retiree cutbacks: Reduces 2% per month after retirement to a minimum of 25%, Guardian standard of no cutbacks would apply.
- The current accelerated life language lists terminal within 24 months. Guardian standard language of six months would apply.

**b. Proposed development approach;**

Your Implementation Manager will lead an implementation team consisting of a Key Account Manager, Sales Consultant, and Account Service Manager, all of whom will work together to meet the State's needs during the implementation of your case. Your Implementation Manager will completely manage the on-boarding process including coordinating communication, timelines, and materials crucial to the process and will work with our internal areas to ensure the process runs smoothly. After your plan is in place, your Key Account Manager and Account Service Manager will continue to provide you with support going forward, to ensure day-to-day service and prompt answers to claims and billing questions.

**c. Technical considerations;**

We make it easy for our employers to submit eligibility data to Guardian on a regular basis. An initial full file is required at the time of implementation and subsequently, maintenance files are needed for updates and changes. Files can be submitted weekly or monthly based on the convenience of the customer.

We offer various convenient methods for submission of eligibility changes including Electronic Data Interchange (EDI), Guardian Anytime or by census. The advantages of using electronic eligibility submissions include the ability to submit a large number of changes quickly at one time, and changes are viewable online within one to two business days.

Initial EDI connections can be established within 90 days during the implementation period. We recommend the use of our Holistic or HIPAA 834 layout although a range of formats can be supported.

Submission of Excel spreadsheet census files by a secure email is ideal for employers with limited web access or lack of electronic eligibility feeds. To help you submit the data, we can supply an Excel template specific to your plan.

Our benefits administration website, www.guardiananytime.com, enables the State and its members to enroll, terminate and update benefits information for employees. This option is ideal for maintenance updates. Other advantages include:

- Updates (additions/terminations) occur in real-time depending on the timing and complexity of a request, or within 24 hours if manual intervention is required
- Staff can manage eligibility updates online or allow employees to make their own updates
- Easy access to history of online activities
- An eligibility report can be created and delivered electronically
- Ability to email questions directly to Guardian.

**d. Detailed project work plan; and**

We have included a detailed implementation timeline. Please refer to our response to Question 26 in Attachment A: Contractor Requirements Matrix above.

**e. Deliverables and due dates.**

We are proposing an effective date of July 1, 2019. Our preferred timeline for implementation is approximately 90 days to ensure a smooth transition; however, we can accommodate narrower timeframes. Please refer to our response to Question 26 in Attachment A: Contractor Requirements Matrix above for a detailed implementation timeline.

5

6

# Additional Forms and Attachments

**This section includes the following:**

- **Form A Bidder Contact Sheet**
- **2016 Audited Financial Statement**
- **2017 Audited Financial Statement**
- **Application for Conversion of Group Life Insurance**
- **Bank Reference Letter**
- **Certificate of Authority for the State of Nebraska**
- **Conversion Feature Overview**
- **Planholder Billing Options and Procedures**
- **Sample Life Contract**
- **Service and Savings Commitment**

# Form A
# Bidder Contact Sheet
### Request for Proposal Number 5953 Z1

Form A should be completed and submitted with each response to this RFP. This is intended to provide the State with information on the bidder's name and address, and the specific person(s) who are responsible for preparation of the bidder's response.

| Preparation of Response Contact Information | |
|---|---|
| Bidder Name: | The Guardian Life Insurance Company of America |
| Bidder Address: | 7 Hanover Square New York, New York 10004 |
| Contact Person & Title: | Thomas Cox, Executive Sales Consultant |
| E-mail Address: | thomas_cox@glic.com |
| Telephone Number (Office): | 913-905-3916 |
| Telephone Number (Cellular): | 703-963-6292 |
| Fax Number: | 913-905-3924 |

Each bidder should also designate a specific contact person who will be responsible for responding to the State if any clarifications of the bidder's response should become necessary. This will also be the person who the State contacts to set up a presentation/demonstration, if required.

| Communication with the State Contact Information | |
|---|---|
| Bidder Name: | The Guardian Life Insurance Company of America |
| Bidder Address: | 7 Hanover Square New York, New York 10004 |
| Contact Person & Title: | Thomas Cox, Executive Sales Consultant |
| E-mail Address: | thomas_cox@glic.com |
| Telephone Number (Office): | 913-905-3916 |
| Telephone Number (Cellular): | 703-963-6292 |
| Fax Number: | 913-905-3924 |

# The Guardian Life Insurance Company of America

**Audited Statutory Basis**
**Financial Statements and Supplemental Schedules**
**December 31, 2016 and 2015**

# The Guardian Life Insurance Company of America

## Audited Statutory Basis Financial Statements

## December 31, 2016 and 2015

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## Report of Independent Auditors

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

We have audited the accompanying statutory financial statements of The Guardian Life Insurance Company of America, which comprise the statutory basis balance sheets as of December 31, 2016 and 2015, and the related statutory basis statements of operations, changes in policyholders' surplus, and 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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 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.

PricewaterhouseCoopers LLP

February 21, 2017

# The Guardian Life Insurance Company of America

## Statutory Basis Balance Sheets

## (In Millions)

| | As of December 31, 2016 | | As of December 31, 2015 | |
|---|---|---|---|---|
| **Admitted Assets** | | | | |
| Bonds | $ | 35,447 | $ | 31,716 |
| Common and preferred stocks | | 1,522 | | 1,623 |
| Mortgage loans | | 3,472 | | 3,388 |
| Real estate | | 374 | | 430 |
| Policy loans | | 3,405 | | 3,337 |
| Other invested assets | | 1,850 | | 1,906 |
| Receivable for securities | | 27 | | 2 |
| Cash, cash equivalents and short-term investments | | 822 | | 778 |
| **Total invested assets** | | 46,919 | | 43,180 |
| Due and accrued investment income | | 384 | | 367 |
| Premiums deferred and uncollected | | 1,058 | | 1,021 |
| Current federal and foreign income tax recoverable and interest thereon | | 106 | | 101 |
| Net deferred tax asset | | 727 | | 707 |
| Reinsurance recoverable from affiliate | | 2,472 | | 2,370 |
| Other assets | | 218 | | 375 |
| **Total admitted assets** | $ | 51,884 | $ | 48,121 |
| **Liabilities** | | | | |
| Reserves for policy benefits | $ | 39,369 | $ | 37,031 |
| Policyholder dividends payable and other contract liabilities | | 3,107 | | 2,189 |
| Interest maintenance reserve | | 464 | | 373 |
| Asset valuation reserve | | 810 | | 798 |
| Other liabilities | | 1,962 | | 1,640 |
| **Total liabilities** | | 45,712 | | 42,031 |
| Policyholders' surplus | | 5,327 | | 5,245 |
| Surplus notes | | 845 | | 845 |
| **Total liabilities and policyholders' surplus** | $ | 51,884 | $ | 48,121 |

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, | |
|---|---|---|
| | 2016 | 2015 |
| **Revenues** | | |
| Premiums, annuity considerations and fund deposits | $ 7,768 | $ 7,334 |
| Net investment income | 2,052 | 1,985 |
| Other income | 421 | 376 |
| **Total revenues** | 10,241 | 9,695 |
| **Benefits and Expenses** | | |
| Benefit payments to policyholders and beneficiaries | 4,293 | 4,104 |
| Net increase to policy benefit reserves | 2,330 | 2,137 |
| Commissions and operating expenses | 2,262 | 2,048 |
| **Total benefits and expenses** | 8,885 | 8,289 |
| Gain from operations before policyholder dividends and taxes | 1,356 | 1,406 |
| Policyholder dividends | (839) | (826) |
| Gain from operations before taxes and realized capital losses | 517 | 580 |
| Income tax expense | (141) | (82) |
| Income from operations before net realized capital losses | 376 | 498 |
| Net realized capital losses | (8) | (65) |
| **Net income** | $ 368 | $ 433 |

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, | |
|---|---|---|
| | 2016 | 2015 |
| **Beginning of year balance** | $ 6,090 | $ 5,692 |
| **Adjustments to surplus:** | | |
| Net income | 368 | 433 |
| Change in net unrealized capital (losses) gains, net of tax | (111) | 61 |
| Change in reserve on account of change in valuation basis | (8) | (40) |
| Change in asset valuation reserve | (11) | (44) |
| Change in net deferred taxes | 92 | (16) |
| Change in non-admitted assets | (84) | 54 |
| Change in pension funded status | (159) | (38) |
| Other changes, net | (5) | (12) |
| Net adjustments to unassigned surplus | 82 | 398 |
| **End of year balance** | $ 6,172 | $ 6,090 |

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, 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Premiums and other income received | $ 7,756 | $ 7,314 |
| Investment income | 2,110 | 2,062 |
| Other income | 196 | 272 |
| Benefits and loss related payments | (4,243) | (4,029) |
| Commissions, expenses and taxes paid | (2,290) | (2,251) |
| Dividends paid | (822) | (782) |
| Other, net | 22 | (228) |
| Net cash provided by operating activities | 2,729 | 2,358 |
| **Cash flows from investing activities:** | | |
| Proceeds from investments sold or matured: | | |
| Bonds | 15,042 | 10,748 |
| Common and preferred stocks | 538 | 340 |
| Mortgage loans | 574 | 469 |
| Real estate | 81 | 32 |
| Other investments | 457 | 679 |
| Proceeds from investments sold or matured | 16,692 | 12,268 |
| Cost of investments acquired: | | |
| Bonds | 18,451 | 12,791 |
| Common and preferred stocks | 464 | 361 |
| Mortgage loans | 664 | 816 |
| Real estate | 16 | 40 |
| Other investments | 517 | 503 |
| Cost of investments acquired | 20,112 | 14,511 |
| Net increase in policy loans, net of repayments | 68 | 107 |
| Net cash used in investing activities | (3,488) | (2,350) |
| **Cash from financing and miscellaneous activities:** | | |
| Cash provided: | | |
| Net deposits on deposit-type contracts and other insurance liabilities | 803 | 5 |
| Net cash provided by financing and miscellaneous activities | 803 | 5 |
| **Net increase in cash, cash equivalents and short-term invesments** | 44 | 13 |
| **Cash, cash equivalents and short-term investments, beginning of year** | 778 | 765 |
| **Cash, cash equivalents and short-term investments, end of year** | $ 822 | $ 778 |

See notes to statutory basis 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, asset management and securities brokerage.

### 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, 2016 and 2015 between NAIC SAP and practices prescribed by the State of New York is shown below:

| | 2016 | 2015 |
|---|---|---|
| Statutory Net Income, New York basis | $ 368 | $ 433 |
| State Prescribed Practices: | | |
| Deferred premiums asset impact (1) | 7 | 11 |
| Admission of unearned reinsurance premium asset (2) | (5) | (6) |
| Statutory Net Income, NAIC SAP basis | $ 370 | $ 438 |

| | 2016 | 2015 |
|---|---|---|
| Statutory Surplus, New York basis | $ 6,172 | $ 6,090 |
| State Prescribed Practices: | | |
| Deferred premiums asset impact (1) | 133 | 122 |
| Admission of unearned reinsurance premium asset (2) | (55) | (49) |
| Statutory Surplus, NAIC SAP basis | $ 6,250 | $ 6,163 |

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial statements prepared on a New York SAP basis vary from financial statements prepared in accordance with GAAP primarily because on a statutory basis: 1) costs related to acquiring business, principally commissions and certain policy issue expenses, are charged to income in the year incurred; 2) life insurance and annuity reserves are based on statutory mortality and interest requirements, without consideration of withdrawals and company experience; 3) life insurance enterprises are required to establish a formula-based asset valuation reserve ("AVR") by a direct charge to surplus to offset potential investment losses; 4) realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the interest maintenance reserve ("IMR") and amortized into investment income over the remaining life of the investment sold; 5) bonds are carried principally at amortized cost; 6) certain reinsurance transactions are accounted for as reinsurance for statutory purposes and as financing transactions under GAAP, and assets and liabilities are reported net of reinsurance for statutory purposes and gross of reinsurance for GAAP; 7) certain "non-admitted assets" (furniture and office equipment, leasehold improvements, capitalized internally developed non-operating system software, and prepaid pension costs) must be excluded under statutory reporting through a charge to surplus; 8) investments in common stock of the Company's wholly-owned and majority owned subsidiaries are accounted for using the equity method, where earnings of such subsidiaries are recognized in surplus; only when dividends are distributed is income recognized; 9) gross deferred tax assets and changes in deferred tax assets ("DTAs") and liabilities ("DTL's"), except those relating to changes in unrealized gains and losses, are recognized as a separate component of surplus. Deferred tax assets not meeting certain criteria are non-admitted; 10) investments in real estate joint ventures that are reported as 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 $389 million and $305 million at December 31, 2016 and December 31, 2015, 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.

### 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. Certain short-term investments, including Money Market Funds, 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 and other forms of partnerships. These investments are valued at the Company's share of equity in the partnerships' 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 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, guaranty funds receivable, 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.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

**Assessments:**
Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. As of December 31, 2016 and December 31, 2015, the liability balance included in other liabilities was $28 million and $2 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 $10 million as of December 31, 2016 and December 31, 2015, respectively.

**NOTE 3 – INVESTMENTS**

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

The Company's investment portfolio includes securities with a 5* NAIC designation. There were two securities that has a 5* NAIC designation with an aggregated book adjusted carrying value and aggregate fair value of $14.1 million as of December 31, 2016. There was one security that has a 5* NAIC designation with a book adjusted carrying value and fair value of $8.0 million as of December 31, 2015.

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.

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.

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.

*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.

**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, 2016 and December 31, 2015 is as follows:

| | Amortized Cost/ Cost* | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| **December 31, 2016** | | (In millions) | | |
| U.S. Government | $ 1,602 | $ 5 | $ (31) | $ 1,576 |
| All other Government | 37 | - | - | 37 |
| States, Territories and Possessions | 390 | 47 | (5) | 432 |
| U.S. Political Subdivisions | 230 | 22 | - | 252 |
| U.S. Special revenue | 2,274 | 179 | (19) | 2,434 |
| Industrial and Miscellaneous | 30,856 | 1,343 | (461) | 31,738 |
| Hybrid | 58 | 4 | (1) | 61 |
| Total Bonds | $ 35,447 | $ 1,600 | $ (517) | $ 36,530 |
| Common stocks - unaffiliated | 445 | 34 | (41) | $ 438 |
| Investment in subsidiaries | 1,346 | 39 | (341) | 1,044 |
| Total Common Stocks | 1,791 | $ 73 | $ (382) | 1,482 |
| Preferred Stocks - Perpetual | 40 | 10 | - | 50 |
| Total Preferred Stocks | 40 | $ 10 | $ - | 50 |
| Total Common and Preferred Stocks | $ 1,831 | $ 83 | $ (382) | $ 1,532 |

| | Amortized Cost/ Cost* | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| **December 31, 2015** | | (In millions) | | |
| U.S. Government | $ 1,644 | 18 | (17) | $ 1,645 |
| All other Government | 157 | 7 | (4) | 160 |
| States, Territories and Possessions | 410 | 52 | - | 462 |
| U.S. Political Subdivisions | 275 | 28 | - | 303 |
| U.S. Special revenue | 2,142 | 202 | (4) | 2,340 |
| Industrial and Miscellaneous | 27,000 | 1,174 | (792) | 27,382 |
| Hybrid | 74 | 4 | (3) | 75 |
| Affiliated Bonds | 14 | - | - | 14 |
| Total Bonds | $ 31,716 | $ 1,485 | $ (820) | $ 32,381 |
| Common stocks - unaffiliated | $ 518 | 25 | (53) | $ 490 |
| Investment in subsidiaries | 1,219 | 9 | (262) | 966 |
| Total Common Stocks | 1,737 | 34 | (315) | 1,456 |
| Preferred Stocks - Perpetual | $ 167 | 7 | (8) | 166 |
| Total Preferred Stocks | 167 | $ 7 | $ (8) | 166 |
| Total Common and Preferred Stocks | $ 1,904 | $ 41 | $ (323) | $ 1,622 |

* Includes unrealized FX adjustments

**NOTE 3 – INVESTMENTS (CONTINUED)**

The Company invests in high quality securities that are diversified by asset class, issuer and industry. At December 31, 2016 approximately 4.5% of the portfolio is invested in securities issued or backed by the United States Government or its agencies. No other single issuer accounts for more than 1.5% of the portfolio at December 31, 2016.

The amortized cost and estimated fair value of debt securities at December 31, 2016 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

| | 2016 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| | (In millions) | |
| Due in one year or less | $ 474 | $ 492 |
| Due after one year through five years | 5,339 | 5,528 |
| Due after five years through ten years | 9,571 | 9,621 |
| Due after ten years | 14,169 | 14,810 |
| Sinking fund bonds, mortgage backed securities and asset backed securities | 5,894 | 6,079 |
| Total | $ 35,447 | $ 36,530 |

The net change in unrealized capital gains (losses) included in surplus for year ended December 31, 2016 and 2015 is summarized as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Changes in net unrealized capital (losses) gains attributable to: | | |
| Bonds (NAIC 6 rated) | $ (4) | $ - |
| Preferred Stocks (NAIC 4, 5 and 6 rated) | 6 | (1) |
| Common stocks unaffiliated | 21 | (31) |
| Common stocks affiliated | (54) | (22) |
| Foreign currency translation | (28) | 58 |
| Other (mainly private equities) | (72) | 84 |
| Total change in net unrealized capital (losses) gains | (131) | 88 |
| Tax benefit (expense) | 20 | (27) |
| Total change in net unrealized (losses) gains, net of tax | $ (111) | $ 61 |

Proceeds from sales, maturities and paydowns of investments in bonds amounted to $15,522 million and $11,113 million for the years ended December 31, 2016 and 2015, respectively. Gross gains of $602 million and $371 million and gross losses of $202 million and $244 million were realized on sales of bonds for the years ended December 31, 2016 and 2015, respectively. These amounts are pre-tax and pre-IMR.

Proceeds from sales, maturities and paydowns of investments in common stock amounted to $560 million and $340 million for the years ended December 31, 2016 and 2015, respectively. Gross gains of $19 million and $19 million and gross losses of $13 million and $18 million were realized on sales of common stock for the years ended December 31, 2016 and 2015, respectively. These amounts are pre-tax.

**NOTE 3 – INVESTMENTS (CONTINUED)**

Proceeds from sales of investments in preferred stock amounted to $153 million and $59 million for the years ended December 31, 2016 and 2015, respectively. Gross gains of $4 million and $10 million and gross losses of $15 million and $9 million were realized on sales of preferred stocks in December 31, 2016 and 2015, respectively. These amounts are pre-tax and pre-IMR.

During 2016, there were no restructured loans. During 2015, the Company restructured one bank loan. The book value at the time of restructure was $14 million and a $10 million impairment was taken at the time of restructure. The carrying value of the bond was $4 million for the year ended December 31, 2015.

During 2016 and 2015, the Company had non-cash transactions related to the exchange or conversion of bonds that it held as investments in the amount of $806 million and $739 million.

During 2016 and 2015, 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 $2 million and $3 million.

During 2016 and 2015, the Company had non-cash transactions related to the exchange or conversion of preferred stock that it held as investments in the amount of $0 million and $6 million.

**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, 2016 and December 31, 2015 are shown below:

| **December 31, 2016** | **Less than 12 Months** | | **12 Months or More** | | **Total** | |
|---|---|---|---|---|---|---|
| (In millions) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government | $ 1,126 | $ (31) | $ 4 | $ - | $ 1,130 | $ (31) |
| All other Government | 17 | - | - | - | 17 | - |
| States, Territories and Possessions | 122 | (5) | 4 | - | 126 | (5) |
| Political Subdivisions | 35 | - | - | - | 35 | - |
| U.S. Special Revenue | 678 | (18) | 8 | (1) | 686 | (19) |
| Industrial and Miscellaneous | 10,221 | (381) | 985 | (80) | 11,206 | (461) |
| Hybrid | 1 | - | 21 | (1) | 22 | (1) |
| Total Bonds | $ 12,200 | $ (435) | $ 1,022 | $ (82) | $ 13,222 | $ (517) |
| Common stocks - unaffiliated | 150 | (19) | 62 | (22) | 212 | (41) |
| Total temporarily impaired securities | $ 12,350 | $ (454) | $ 1,084 | $ (104) | $ 13,434 | $ (558) |

**NOTE 3 – INVESTMENTS (CONTINUED)**

| December 31, 2015 | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| (In millions) | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government | $ 1,113 | $ (17) | $ 1 | $ - | $ 1,114 | $ (17) |
| All other Government | 76 | (4) | - | - | 76 | (4) |
| States, Territories and Possessions | 41 | - | - | - | 41 | - |
| U.S. Special Revenue | 203 | (3) | 9 | (1) | 212 | (4) |
| Industrial and Miscellaneous | 10,915 | (652) | 773 | (140) | 11,688 | (792) |
| Hybrid | 30 | (3) | - | - | 30 | (3) |
| Total Bonds | $ 12,378 | $ (679) | $ 783 | $ (141) | $ 13,161 | $ (820) |
| Preferred stocks | 72 | (8) | 3 | - | 75 | (8) |
| Common stocks - unaffiliated | 211 | (14) | 108 | (39) | 319 | (53) |
| Total temporarily impaired securities | 12,661 | $ (701) | $ 894 | $ (180) | $ 13,555 | $ (881) |

Note: The unrealized losses in the above table include $6 million for NAIC 6 Rated Preferred Stocks.

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 six hundred and seventy two securities in an unrealized loss position for greater than 12 months with a book value of $1,188 million and a fair value of $1,084 million as of December 31, 2016. There were eight hundred and seventy securities in an unrealized loss position for greater than 12 months with a book value of $1,074 million and a fair value of $894 million as of December 31, 2015.

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.

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Mortgage Loans:**
Mortgage loans are valued at amortized cost. Valuation reserves are established for potential declines in the value of the mortgage loans. As of December 31, 2016 and December 31, 2015 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, 2016 and 2015, respectively.

The Company's investments in mortgage loans on real estate consist principally of loans on commercial and cooperative residential real estate properties. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas ($1,183 million or 34.07% and $224 million or 6.45%) at December 31, 2016. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Virginia ($1,058 million or 31.22% and $228 million or 6.72%) at December 31, 2015. The Company estimates the fair value of mortgage loans on real estate to be $3,549 million and $3,538 million at December 31, 2016 and December 31, 2015, 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 3.05% and 5.00% originated during 2016. The maximum percentage of any single mortgage loan to the value of the security originated in 2016 was 64.98% at origination date.

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, 2016 or December 31, 2015, respectively.

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.

### NOTE 3 – INVESTMENTS (CONTINUED)

The following table set forth the credit quality indicators as of December 31, 2016 and December 31, 2015, based upon the recorded investment gross of allowance for credit losses.

**Mortgage Loans**

| | Debt Service Coverage Ratio - December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Grand Total |
| **Loan-to-Value Ratio** | | | | | | | |
| 0% - 49.99% | $ 670 | $ 215 | $ 131 | $ 57 | $ 37 | $ 2 | $ 1,112 |
| 50% - 59.99% | 559 | 138 | 238 | 64 | 3 | - | 1,002 |
| 60% - 69.99% | 471 | 18 | 218 | 245 | 55 | 5 | 1,012 |
| 70% - 79.99% | 73 | 37 | 16 | 72 | 93 | 8 | 299 |
| 80% - 89.99% | - | 22 | 7 | - | - | - | 29 |
| 90% - 100% | 18 | - | - | - | - | - | 18 |
| Greater than 100% | - | - | - | - | - | - | - |
| **Total** | **$ 1,791** | **$ 430** | **$ 610** | **$ 438** | **$ 188** | **$ 15** | **$ 3,472** |

**Mortgage Loans**

| | Debt Service Coverage Ratio - December 31, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | Grand Total |
| **Loan-to-Value Ratio** | | | | | | | |
| 0% - 49.99% | $ 549 | $ 126 | $ 39 | $ 97 | $ 16 | $ 4 | $ 831 |
| 50% - 59.99% | 346 | 81 | 451 | 200 | 35 | - | 1,113 |
| 60% - 69.99% | 464 | - | 282 | 293 | 16 | 5 | 1,060 |
| 70% - 79.99% | 28 | 28 | - | 119 | 141 | 7 | 323 |
| 80% - 89.99% | - | - | - | - | 5 | 13 | 18 |
| 90% - 100% | 18 | 22 | - | - | - | 3 | 43 |
| Greater than 100% | - | - | - | - | - | - | - |
| **Total** | **$ 1,405** | **$ 257** | **$ 772** | **$ 709** | **$ 213** | **$ 32** | **$ 3,388** |

### NOTE 3 – INVESTMENTS (CONTINUED)

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

Real estate was comprised of the following for the years ended December 31, 2016 and December 31, 2015:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Investment real estate | $ 361 | $ 415 |
| Properties held for sale - Company Occupied | 10 | 3 |
| Properties occupied by the Company | 3 | 12 |
| Total real estate | $ 374 | $ 430 |

Effective January 1, 2015, per the revised guidance contained in SSAP No.40 (Revised) – Real Estate Investments ("SSAP 40R"), a single real estate property investment that is wholly-owned by a limited liability company ("LLC") and that is directly owned and wholly-owned by the reporting insurance entity is to be classified on the Statutory Basis Balance Sheets as Real estate. In order to meet this requirement the Company reclassified fifteen single property joint venture limited liability companies that it directly and wholly owns from Other invested assets to Real estate on its Statutory Basis Balance Sheets in the first quarter of 2015. The carrying amount of these joint venture limited liability companies was $270 million at the time of transfer.

The Company had accumulated depreciation totaling $121 million and $114 million at December 31, 2016 and December 31, 2015, respectively. The Company recorded depreciation expense of $19 million for 2016 and $20 million for 2015. There were four properties with carrying value of $24 million, above their combined fair value of $20 million at December 31, 2016. There were two properties with carrying value of $21 million, above their combined fair value of $17 million at December 31, 2015. There were no other-than-temporary impairments taken on real estate in 2016 or 2015. The fair values were determined by a third party and internal appraisals. As of December 31, 2016 the Company had four home office properties held for sale with carrying value of $10 million.

**Restricted Assets and Special Deposits:**
Total admitted restricted assets of $23 million and $12 million at December 31, 2016 and 2015, respectively were on deposits with states as required by certain insurance laws of $4 million in 2016 and 2015 and pledged as collateral for futures trading of $20 million and $8 million in 2016 and 2016, respectively. These amounts are included in "Bonds" in the Statutory Basis Balance Sheets. Total admitted restricted assets were 0.05% and 0.02% of the Company's total admitted assets at December 31, 2016 and 2015, respectively. There were no non-admitted restricted assets in 2016 and 2015.

**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 $1,754 million and $1,590 million at December 31, 2016 and December 31, 2015, respectively.

**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 equity-based products, including variable life, variable annuities and other lines of insurance. 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 and PAS. Effective September 1, 2016, GIAC sold its Group 401(k) in-force business to Ameritas Life Insurance Corp., a Nebraska corporation ("Buyer") and entered into an indemnity reinsurance agreement with the Buyer on a 100% modified coinsurance basis for the liabilities until the Buyer can obtain all of the required regulatory and contract holder approvals to novate the GIAC Group 401(k) in-force contracts through Assumption Reinsurance.

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

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

First Commonwealth, Inc. ("FCW") provides dental care coverage and/or arranges for dental care services to be provided to its subscribers primarily on a prepaid basis. It also provides Indemnity/Preferred Provider Organization ("PPO") dental coverage, and administrative claim services. Through its subsidiary, Premier, FCW also operates as a dental health care service plan under the California Geographic Managed Care Program ("GMC") and the Los Angeles Prepaid Health Plan ("LAPHP"), which are administered by the California Department of Health Services and were created by the State legislature to ensure access, quality of care, and cost-effectiveness for beneficiaries of the Medi-Cal Program. On January 29, 2016, FCW acquired 100% interest in Avesis Incorporated at a purchase price of $262 million. The total assets acquired were $317 million which includes $268 million in goodwill and intangible assets and total liabilities acquired were $55 million.

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

- During 2016, GIS received $234 million of real estate operating entities and joint ventures from the Company. GIS also received a contribution of $130 million from the Company which represents the common stock of Reed Group, Ltd., a Colorado corporation that provides absence management services.

- On August 24, 2016, GIS acquired 100% interest in STX Healthcare Management Service, Inc., a dental service organization, at a purchase price of $79 million in cash. The total assets acquired were $94 million which includes $80 million in goodwill and intangible assets and total liabilities acquired were $15 million.

- On December 31, 2015, GIS acquired 100% interest in Aon Hewitt's Absence Management Business at a purchase price of $158 million in cash. The total assets acquired were $167 million which includes $142 million in goodwill and intangible assets and total liabilities acquired were $9 million.

- On December 17, 2015, GIS entered into a definitive agreement to sell its majority interest (as of December 31, 2015, GIS owns a 94.0% interest in RS) in RS to Victory Capital. As a result of the sale agreement, the Company recorded a realized loss of $151 million in 2015 related to its investment in GIS as a result of a decline in fair value considered to be other-than-temporary. In 2015, the decline in fair value is reflected in Other invested assets. The transaction closed on July 29, 2016.

**NOTE 3 – INVESTMENTS (CONTINUED)**

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | (In millions) | | | |
| **GIAC (Statutory basis)** | | | | |
| Total assets | $ | 16,783 | $ | 15,886 |
| Total liabilities | | 16,523 | | 15,626 |
| Net loss | $ | (140) | $ | (24) |
| **BLICOA (Statutory basis)** | | | | |
| Total assets | $ | 3,527 | $ | 3,381 |
| Total liabilities | | 3,325 | | 3,173 |
| Net income | $ | 18 | $ | 14 |
| **PALIC (Statutory basis)** | | | | |
| Total assets | $ | 268 | $ | 269 |
| Total liabilities | | 204 | | 218 |
| Net income | $ | 6 | $ | 5 |
| **FCW (GAAP basis)** | | | | |
| Total assets | $ | 701 | $ | 550 |
| Total liabilities | | 161 | | 81 |
| Net income | $ | 25 | $ | 21 |
| **GIS (GAAP basis)** | | | | |
| Total assets | $ | 1,425 | $ | 867 |
| Total liabilities | | 705 | | 300 |
| Net loss | $ | (24) | $ | (150) |

### NOTE 3 – INVESTMENTS (CONTINUED)

**Investment in Subsidiaries**

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

December 31, 2016

| Description of SCA Investment (Per SSAP No 97) | % of SCA Ownership | Gross Amount | Non-admitted Amount | Admitted Asset Amount | Date of Filing to NAIC | Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing) | NAIC Response Received (yes/no) | NAIC Valuation (Amount) | NAIC Disallowed Entity's Valuation Method, Resubmission Required (yes/no) | Code |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (In millions) | | | | | | |
| Managed Dental Care of California | 100% | $ 5 | $ - | $ 5 | 6/30/2016 | Sub-2 | Y | $ 6 | no | I |
| First Commonwealth | 100% | 508 | - | 508 | 12/30/2016 | Sub-2 | Y | 420 | no | I |
| Innovative Underwriters | 100% | 6 | 6 | - | - | Sub-2 | n/a | - | n/a | I |
| Guardian Investors Services, LLC | 100% | 710 | - | 710 | - | n/a | n/a | - | n/a | I |
| Aggregate Total | | $ 1,229 | $ 6 | $ 1,223 | | | | $ 426 | | |

December 31, 2015

| 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 Entity's Valuation Method, Resubmission Required (yes/no) | Code |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (In millions) | | | | | | |
| Managed Dental Care of California | 100% | $ 6 | $ - | $ 6 | 12/11/15 | Sub-2 | Y | $ 5 | no | I |
| First Commonwealth | 100% | 438 | - | 438 | 12/11/15 | Sub-2 | Y | 420 | no | I |
| Innovative Underwriters | 100% | 6 | 6 | - | n/a | Sub-2 | n/a | - | n/a | I |
| Guardian Investors Services, LLC | 100% | 533 | - | 533 | n/a | n/a | n/a | - | n/a | I |
| Aggregate Total | | $ 983 | $ 6 | $ 977 | | | | $ 425 | | |

### 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, 2016 and December 31, 2015:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Bonds | $ 1,545 | $ 1,480 |
| Preferred stocks | 7 | 8 |
| Unaffiliated common stocks | 9 | 9 |
| Affiliated common stocks | 12 | 35 |
| Mortgage loans | 169 | 159 |
| Real estate | 73 | 74 |
| Policy loans | 247 | 241 |
| Cash and short-term investments | 4 | 3 |
| Other (mainly private equities) | 181 | 165 |
| Gross investment income | 2,247 | 2,174 |
| Less investment expenses | (195) | (189) |
| Net investment income | $ 2,052 | $ 1,985 |

#### NET REALIZED CAPITAL (LOSSES) GAINS

Net realized capital gains (losses) were derived from the following sources for the years ended December 31, 2016 and December 31, 2015:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Bonds | $ 401 | $ 9 |
| Preferred stocks | (11) | 1 |
| Common stocks (unaffiliated & affiliated) | 5 | - |
| Mortgage loans | (2) | - |
| Real estate | 29 | 2 |
| Other invested assets | (8) | 93 |
| Derivatives and hedging (losses) gains | (46) | 27 |
| Other realized losses | - | (1) |
| Total net realized capital gains | 368 | 131 |
| Capital gains tax expense | (164) | (132) |
| Transfer to IMR (net of tax) | (212) | (64) |
| Net realized capital losses | $ (8) | $ (65) |

Included in Other Invested Assets is $15.5 million net losses related to the transfer of twenty real estate joint venture LLC's to GIS in 2016.

The net realized capital loss figure above includes other-than-temporary impairment losses of $46 million and $188 million for the years ended December 31, 2016 and December 31, 2015, respectively. The $46 million related to private equities. The $188 million comprises of a $151 million impairment related to the sale of RS, $31 million related to bonds, $5 million related to private equities, and $1 million related to real estate funds.

**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 is 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.

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

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

*Equity index futures* are used to mitigate the change in value of the liability the Company has to participants in its deferred compensation plans that allocate their plan account balances to equity funds offered under the plan. Equity index futures obligate the Company to pay or to receive an amount based on a specified equity market index as of a future date applied to the notional amount of the contract. The change in the fair value of the futures contracts are recorded as income or expense which offsets the impact on gain from operation of the change in value of its deferred compensation liability. If the hedge is deemed to be ineffective for any period of time, the change in the fair value of the futures contracts for that time period is recorded in surplus as an unrealized gain or loss.

**NOTE 3 – INVESTMENTS (CONTINUED)**

*Treasury futures* are used to mitigate the portion of the change in fair value related to a change in interest rates on specifically identified assets acquired by the Company and held in its general account to support the Funding Agreements ("FA") and the specifically identified portion of a liability incurred by the Company pertaining to FA that are issued by the Company to back Medium Term Notes ("MTN") issued by a special purpose entity.

The Company enters into short positions (sells) treasury futures contracts prior to the issuance of the FA-MTN in order to lock-in the interest rate component of the return of the designated assets at their date of acquisition. When the FA-MTN is issued the Company enters into long position (purchases) treasury futures contracts in order to mitigate the change in the fair value of the designated net liability due to the effects of interest rate changes. The change in the fair value of the futures contracts are recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in value of its FA liability.

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.

Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

*S&P equity options* are used by the Company as a risk management strategy to reduce the projected dividend liability exposure on its Index Participation Feature ("IPF") which is a rider on certain whole life contracts. The Company uses a combination of short positions (sell) and long positions (purchases) of over-the-counter European call options on the S&P 500 index with expiration of one year to mitigate the dividend liability exposure based on the future return on S&P 500 index for the annual period of the monthly segment being hedged between the guaranteed floor rate and the cap rate on the participating balances. The change in the fair value of the options contracts are recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in the amount of the dividend liability.

**Hedging – Not Designated As Hedging Instruments**

The Company enters into other derivative transactions that mitigate economic risks but are not designated as a hedge for accounting purposes or do not qualify for hedge accounting treatment. These derivative instruments are reported at fair value on the balance sheet as either other invested assets or other liabilities. Changes in the fair value of these instruments are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recorded.

*Treasury futures* are used to mitigate the key rate duration mismatch between the designated segment of the general account asset portfolio and the custom composite benchmarks for that segment designed to incorporate certain interest rate characteristics of the liabilities that those assets support. Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

*Foreign currency futures* are used to mitigate the foreign exchange risk of investments in foreign denominated bonds securities. Foreign currency futures are exchange traded and settled daily. Foreign currency futures obligate the Company to exchange a specified amount of foreign currency at a specified rate on a future date.

*Equity index futures* are used to mitigate market fluctuations of the Company's portfolio of unaffiliated common stock and other mark to market assets and to minimize the volatility associated with certain liabilities. Equity index futures obligate the Company to pay or receive from a counterparty a cash amount based on a specified equity market index at a predefine price as of a future date applied to the notional amount of the contracts.

**NOTE 3 – INVESTMENTS (CONTINUED)**

*Foreign currency forwards* are used to mitigate the foreign exchange risk for investments in foreign denominated bonds or foreign denominated equity investments. Foreign currency forwards obligate the Company and the counterparty to exchange U.S. dollars and another currency at a specified future date and at a specified price.

*Credit default swaps index* ("CDX") are used to reduce the credit risk exposure on a specified portfolio of corporate bonds. The Company purchases CDX contracts in which it receives payments if there is a credit event on one or more of the specified securities contained in the index. These payments would be used to offset any credit losses recorded on portfolio of bonds being hedged.

**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.

### NOTE 3 – INVESTMENTS (CONTINUED)

The effects of the Company's use of derivative instruments on the Balance Sheets and Statements of Operations:

| December 31, 2016 | Notional Amount | Statement Value Assets | Statement Value Liabilities | Change in Unrealized Capital Gains (Losses) | Net Realized Capital Gains (Losses) | Net Investment Income |
|---|---|---|---|---|---|---|
| | | | | (in millions) | | |
| Derivatives designated as hedging instruments: | | | | | | |
| Foreign currency swaps | $ 422 | $ 34 | $ - | $ 24 | $ - | $ - |
| Equity index futures | - | - | - | - | - | - |
| Treasury futures | - | - | - | - | - | - |
| S&P equity options | 1 | - | - | - | - | - |
| Derivatives not designated as hedging instruments: | | | | | | |
| Treasury futures | - | - | - | (1) | (41) | - |
| Foreign currency futures | - | - | - | - | - | - |
| Equity index futures | 3 | - | - | - | - | - |
| Foreign currency forwards | - | - | - | - | - | - |
| Credit default swap index | 950 | - | 15 | - | (4) | - |
| Total derivatives | $ 1,376 | $ 34 | $ 15 | $ 23 | $ (45) | $ - |

| December 31, 2015 | Notional Amount | Statement Value Assets | Statement Value Liabilities | Change in Unrealized Capital Gains (Losses) | Net Realized Capital Gains (Losses) | Net Investment Income |
|---|---|---|---|---|---|---|
| | | | | (in millions) | | |
| Derivatives designated as hedging instruments: | | | | | | |
| Foreign currency swaps | $ 146 | $ 9 | $ - | $ 7 | $ - | $ - |
| Equity index futures | - | - | - | - | - | - |
| Derivatives not designated as hedging instruments: | | | | | | |
| Equity index futures | - | - | - | 3 | (4) | - |
| Currency forwards | - | - | - | (10) | 32 | - |
| Credit default swap | 50 | - | 5 | - | (1) | - |
| Total derivatives | $ 196 | $ 9 | $ 5 | $ - | $ 27 | $ - |

**Repurchase Agreements:**

The Company periodically enters into repurchase agreements whereby securities will be resold at a specified date and price. There were no repurchase agreements as of December 31, 2016 and December 2015.

**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, 2016 or December 31, 2015.

**Securities Lending**
There were no securities on loan at December 31, 2016 or December 31, 2015.

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Statutory guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions based on internally developed data in the absence of observable market information. The guidance requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when determining the fair value of an asset or liability. The statement classifies all assets and liabilities carried or disclosed at fair value in one of the following three categories:

Level 1 – inputs are quoted market prices available in active markets for identical assets or liabilities on the reporting date. Assets included in this category include common stock unaffiliated and derivative instruments actively traded on an exchange, and any actively traded registered mutual funds held directly by the general account.

Level 2 – inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable. These types of instruments include fixed maturity instruments, common stock unaffiliated that is not actively traded preferred stocks and private placement securities.

Level 3 – inputs are unobservable where there is little or no market activity for the asset or liability and the Company makes estimates and assumptions based on internally derived information. Instruments held in this category include foreign equity (common stock unaffiliated) and certain private placement securities.

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.

### 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 sixty two 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 were no bonds rated 6 by the NAIC SVO and carried at fair value on December 31, 2016 and December 31, 2015. Impaired bonds carried at fair value on December 31, 2016 and December 31, 2015 were $2 million and $12 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. Preferred stocks rated 4, 5, 6 by the NAIC SVO and carried at fair value on December 31, 2016 and December 31, 2015 were $0 million and $14 million, respectively.

Unaffiliated common stocks are reported at fair value.

**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.

### NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarize the Company's financial instruments carried at fair value by their fair value hierarchy levels for the period ending December 31, 2016 and December 31, 2015:

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Carrying Amount |
| **Assets** | | | (In millions) | | |
| Impaired Bonds | $ - | $ 2 | $ - | $ 2 | $ 2 |
| Common Stock | - | 438 | - | 438 | 438 |
| Total Assets | $ - | $ 440 | $ - | $ 440 | $ 440 |
| **Liabilities** | | | | | |
| Derivative instruments | $ - | $ 15 | $ - | $ 15 | $ 15 |
| Total Liabilities | $ - | $ 15 | $ - | $ 15 | $ 15 |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Carrying Amount |
| **Assets** | | | (In millions) | | |
| Impaired Bonds | $ - | $ 4 | $ 8 | $ 12 | $ 12 |
| NAIC 4,5,6 Preferred Stock | - | 14 | - | $ 14 | $ 14 |
| Common Stock | 183 | 307 | - | 490 | 490 |
| Derivative Instruments | - | 9 | - | 9 | 9 |
| Total Assets | $ 183 | $ 334 | $ 8 | $ 525 | 525 |
| **Liabilities** | | | | | |
| Derivative instruments | $ - | $ 5 | $ - | $ 5 | $ 5 |
| Total Liabilities | $ - | $ 5 | $ - | $ 5 | $ 5 |

### NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes changes to the Company's financial instrument carried at fair value and classified as level 3 in the fair value hierarchy for the year ended December 31, 2016.

| Level 3 Roll Forward | As of December 31, 2016 | | |
|---|---|---|---|
| (In Millions) | NAIC 6 Bonds | Impaired Bonds | Total |
| Fair Value , beginning of period | $ - | $ 8 | $ 8 |
| Total gains or (losses) (realized or unrealized): | | | - |
| Included in net income | - | - | - |
| Included in surplus | - | - | - |
| Purchases, sales, issuances, and settlements: | | | - |
| Purchases | - | - | - |
| Sales | - | (8) | (8) |
| Issuances | - | - | - |
| Settlements | - | - | - |
| Transfers into Level 3 | - | - | - |
| Transfers out of Level 3 | - | - | - |
| Fair value, end of period | $ - | $ - | $ - |

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2016, the Company transferred no securities into and out of Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

| Level 3 Roll Forward | As of December 31, 2015 | | |
|---|---|---|---|
| (In Millions) | NAIC 6 Bonds | Impaired Bonds | 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 | - | 8 | 8 |
| Transfers out of Level 3 | - | - | - |
| Fair value, end of period | $ - | $ 8 | $ 8 |

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2015 the Company transferred one security into Level 3 and none out of Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

### NOTE 5 – RESERVES FOR POLICY BENEFITS

Reserves for policy benefits represent the estimated net present value of future policy benefits, less future policy premiums, established using actuarial methods based on mortality and morbidity experience tables and valuation interest rates prescribed by the Department. Actual future experience will generally differ from assumptions used to determine these reserves.

Reserves for future policy benefits on life insurance issued in 1988 and later are calculated principally on the New Jersey Reserve Method or the Commissioners Reserve Valuation Method using the 1980 Commissioners' Standard Ordinary ("CSO") and the 2001 CSO mortality tables. Reserves on life policies issued before 1988 are calculated principally on the Net Level Premium Reserve Method using the American Experience, 1941, 1958 and 1980 CSO mortality tables. Annuity contract reserves are principally calculated using the 1971, 1983, and 2000 Individual Annuity, 2015 Individual Annuity, and 1983 Group 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 1987 Commissioners' Group Disability Table and Table 95a and interest rates ranging from 3.0% to 5.0%, depending on 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 maintains a liability for the expenses of direct claims IBNR. The basis of this liability is estimated by management based upon actual Company experience of the cost of claims settlement by product and amounted to $21 million and $19 million at December 31, 2016 and December 31, 2015, respectively.

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, 2016, the Company had $14 billion of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of New York. The reserves to cover the above insurance totaled $33 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.

### NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

At December 31, 2016 and December 31, 2015 the withdrawal characteristics of the Company's annuity reserves and deposit liabilities were as follows:

| | As of December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | (1) General Account | (2) Separate Account with Guarantees | (3) Separate Account Non Guaranteed | (4) Total | (4) % of Total |
| A. Subject to discretionary withdrawal: | | | | | |
| (1) With market value adjustment | $ 10 | $ - | $ - | $ 10 | 1.5% |
| (2) At book value less current surrender charge of 5% or more | 63 | - | - | 63 | 9.5% |
| (3) At fair value | - | - | - | - | - |
| (4) Total with adjustment or at fair value (Total of 1 through 3) | $ 73 | $ - | $ - | $ 73 | 11.0% |
| (5) At book value without adjustment (with minimal or no charge or adjustment) | $ 548 | $ - | $ - | $ 548 | 82.5% |
| B. Not subject to discretionary withdrawal | $ 43 | $ - | $ - | $ 43 | 6.5% |
| C. Total (gross: direct + assumed) | $ 664 | $ - | $ - | $ 664 | 100.0% |
| D. Reinsurance ceded | - | - | - | - | - |
| E. Total (net)* (C)- (D) | $ 664 | $ - | $ - | $ 664 | 100.0% |

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

| | As of December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | (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 | 1.5% |
| (2) At book value less current surrender charge of 5% or more | 68 | - | - | 68 | 10.0% |
| (3) At fair value | - | - | - | - | - |
| (4) Total with adjustment or at fair value (Total of 1 through 3) | $ 78 | $ - | $ - | $ 78 | 11.5% |
| (5) At book value without adjustment (with minimal or no charge or adjustment) | $ 551 | $ - | $ - | $ 551 | 81.4% |
| B. Not subject to discretionary withdrawal | $ 48 | $ - | $ - | $ 48 | 7.1% |
| C. Total (gross: direct + assumed) | $ 677 | $ - | $ - | $ 677 | 100.0% |
| D. Reinsurance ceded | - | - | - | - | - |
| E. Total (net)* (C)- (D) | $ 677 | $ - | $ - | $ 677 | 100.0% |

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

### 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 $800 million of notes have been issued with $800 million remaining outstanding. The $800 million is included in "Policyholder dividends payable and other contract liabilities"

### 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, 2016 and December 31, 2015 were as follows:

| | 2016 (In millions) | | 2015 (In millions) | |
|---|---|---|---|---|
| **Type** | **Gross** | **Net** | **Gross** | **Net** |
| Ordinary new business | $ 67 | $ 67 | $ 66 | $ 66 |
| Ordinary renewal | 656 | 569 | 636 | 557 |
| Group life | 168 | 341 | 162 | 328 |
| Totals | $ 891 | $ 977 | $ 864 | $ 951 |

### 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 recognized this surplus reduction over a period of up to ten years, which the Company elected.

**Plan Amendments**
On September 8, 2016, the Company announced a plan amendment to freeze The Guardian Retirement Plan for Field Clerical Employees effective December 31, 2016. The plan amendment affects only the Field Clerical defined benefit pension plan. The announcement of the plan freeze resulted in a plan curtailment. As a result of this amendment, all plan participants ceased accruing additional benefits under the plan effective December 31, 2016. As of December 31, 2016, all active plan participants who completed one year of service (were hired no later than January 1, 2016) were fully vested in their accrued benefit. On September 26, 2016, the Company filed a determination letter with the Internal Revenue Service requesting approval to terminate the plan.

On September 8, 2016, the Company announced that all postretirement benefits offered to Field Clerical employees, Full Time Agents and General Agents ended on December 31, 2016. Field Clerical employees, Full Time Agents and General Agents eligible for postretirement benefits received a Special Transition Benefit in December 2016. The Special Transition Benefit was a one-time, lump sum cash payment in lieu of life insurance coverage and the contribution Guardian provides to retirees to help pay for retiree medical and dental coverage. The Company recorded a curtailment gain to recognize a reduction in the accrued postretirement benefit obligation for removing Field Clerical employees, Full Time Agents and General Agents who were not eligible for postretirement benefits as of December 31, 2016.

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The table below discloses the remaining unrecognized transition impact:

| Surplus Impact at Transition | | |
|---|---|---|
| Transition Liability | $ | 260 |
| Amount Recognized on January 1, 2013 | | (59) |
| Accelerated Transition Liability recognized due to funded status gains – December 31, 2013 | | (120) |
| Remaining Transition Liability - December 31, 2013 | | 81 |
| Transition amount recognized during 2014 | | (19) |
| Transition amount recognized during 2015 | | (33) |
| Transition amount recognized during 2016 | | (13) |
| Remaining Transition Liability - December 31, 2016 | $ | 16 |

The table below discloses the anticipated recognition of the remaining transition impact:

| Minimum Transition Liability: | Anticipated Amortization | Remaining Transition Liability |
|---|---|---|
| 2017 | 13 | $ 3 |
| 2018 | 3 | - |

**Components of Net Periodic Benefit Expense**
The components of net periodic pension and postretirement benefits expense including the amount of unrecognized items amortized into expense for the years ended December 31 are as follows:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | (In millions) | | | |
| Service cost | $ 71 | $ 70 | $ 6 | $ 6 |
| Interest cost | 95 | 89 | 11 | 10 |
| Expected return on plan assets | (132) | (142) | (10) | (10) |
| Amortization of transition amount | 1 | 1 | - | - |
| Amortization of prior service costs | - | 3 | (8) | (3) |
| Amortization of actuarial net loss | 46 | 42 | 17 | 5 |
| Curtailment | - | - | (6) | - |
| Settlement | - | 3 | 2 | - |
| Other | - | (2) | - | - |
| Net periodic expense | $ 81 | $ 64 | $ 12 | $ 8 |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Changes in the projected benefit obligations and plan assets during the years ended December 31, 2016 and December 31, 2015 were as follows (in millions):

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Change in benefit obligation** | **2016** | **2015** | **2016** | **2015** |
| Benefit obligation, at beginning of period | $ 2,038 | $ 2,108 | $ 240 | $ 250 |
| Service cost | 71 | 70 | 6 | 6 |
| Interest cost | 95 | 89 | 11 | 10 |
| Actuarial loss (gain) | 229 | (95) | 9 | (15) |
| Plan amendments | - | - | - | - |
| Curtailments | (9) | - | (9) | - |
| Settlements | - | (59) | (18) | - |
| Benefits paid | (72) | (73) | (13) | (11) |
| Other | - | (2) | - | - |
| Benefit obligation, at end of period | $ 2,352 | $ 2,038 | $ 226 | $ 240 |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Change in fair value of plan assets** | **2016** | **2015** | **2016** | **2015** |
| Plan assets, at beginning of period | $ 1,672 | $ 1,805 | $ 134 | $ 136 |
| Actual return on plan assets | 151 | (12) | 13 | (1) |
| Employer contributions | 15 | 11 | - | - |
| Settlements | - | (59) | - | - |
| Benefits paid | (72) | (73) | (13) | (1) |
| Plan assets, at end of period | $ 1,766 | $ 1,672 | $ 134 | $ 134 |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Funded status** | **2016** | **2015** | **2016** | **2015** |
| Funded status at end of period | $ (586) | $ (366) | $ (92) | $ (106) |
| Unrecognized transition liability | 2 | 2 | - | - |
| Unrecognized prior service costs | 1 | 1 | 2 | (3) |
| Unrecognized actuarial net loss | 796 | 642 | 58 | 71 |
| Net amount recognized | $ 213 | $ 279 | $ (32) | $ (38) |

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Recognized as of December 31** | **2016** | **2015** | **2016** | **2015** |
| Prepaid benefit cost | $ - | $ 8 | $ 9 | $ - |
| Less assets non admitted | - | (8) | (9) | - |
| Accrued liability | (586) | (374) | (85) | (77) |
| Net amount recognized | $ (586) | $ (374) | $ (85) | $ (77) |

**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 benfit cost in 2017 as follows:

| | Pension Benefits | Other Benefits |
|---|---|---|
| | (In millions) | |
| Net transition obligation | $ 1 | $ - |
| Net prior service cost | - | (2) |
| Net loss | 58 | 3 |
| | $ 59 | $ 1 |

## Assumptions

Weighted average assumptions used in calculating the benefit obligations were as follows:

| | Pension Benefits | | Post Retirement Benefits | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Discount rate | 4.35% | 4.75% | 4.30% | 4.70% |
| Rate of compensation increase | 3.00% | 3.00% | n/a | n/a |

Weighted average assumptions used in calculating the net periodic benefit cost were as follows:

| | Pension Benefits For the Years Ended | | Post Retirement Benefits For the Years Ended | |
|---|---|---|---|---|
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| Discount rate | 4.75% | 4.35% | 4.70% | 4.20% |
| Rate of compensation increase | 3.00% | 3.00% | 3.00% | 3.00% |
| Expected return on plan assets: | | | | |
| Assets in trust account | 8.00% | 8.20% | 8.00% | 8.20% |
| Assets held under insurance contract/other | 4.35% | 4.75% | 4.35% | 4.75% |

Assumed health care cost trend rates were as follows:

| | As of December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Medical & Prescription Pre - Age 65 | 6.30%, grading to 4.5% over 10 years | 6.50%, grading to 4.5% over 10 years |

### 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, 2016, a one-percentage-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by $0.1 million and $1.5 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by $0.1 million and $1.4 million, respectively. At December 31, 2015, a one-percentage-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by $0.1 million and $1.6 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.

The accumulated benefit obligations ("ABO") for the funded and unfunded pension plans were $1,754 million and $335 million, respectively, at December 31, 2016 and $1,538 million and $280 million, respectively, at December 31, 2015. The APBO for the postretirement plans was $226 million at December 31, 2016 and $240 million at December 31, 2015.

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 $1,033 million, $917 million, and $583 million respectively at December 31, 2016 and $314 million, $280 million, and $0 million respectively at December 31, 2015.

The pension plans hold immediate participation guarantee group annuity ("IPG") contracts purchased from the Company. These contracts are expected to provide future benefits to plan participants specifically covered by these contracts of $18 million at December 31, 2016 and $20 million at December 31, 2015.

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 no contribution in 2016 to its pension plans and does not expect to make a contribution to its pension plans in 2017.

In 2015, the Company updated its mortality assumption to reflect the RP-2014 base mortality table released by the Society of Actuaries in October 2014. The impact of changing base mortality tables from RP-2000 to RP-2014 resulted in an aggregate increase in the benefit obligation of approximately $20 million at December 31, 2015.

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

**Benefit Payments**

The following table disclosed the expected benefit payments for the Company's pension and postretirement plans. The expected benefit payments for 2017 include the payments associated with the decision to terminate the Field Clerical defined benefit pension plan.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| **Estimated Future Payments** | | (In millions) | | |
| 2017 | $ | 189 | $ | 12 |
| 2018 | | 72 | | 12 |
| 2019 | | 75 | | 12 |
| 2020 | | 80 | | 13 |
| 2021 | | 86 | | 13 |
| 2022 - 2026 | | 573 | | 74 |

**Plan Assets**

The Company's pension and postretirement plans' asset allocation by major asset class at December 31, 2016 and December 31, 2015, and the target allocation for 2017, are as follows:

| | Target Allocation | Percentage of Plan Assets at | |
|---|---|---|---|
| Asset Category | 2017 | As of December 31, 2016 | As of December 31, 2015 |
| U.S. Stocks | 10%-50% | 36% | 41% |
| International Stocks | 5%-15% | 7% | 7% |
| Non-convertible Bonds | 45%-75% | 57% | 46% |
| Convertible Bonds | 0%-10% | 0% | 6% |
| | | 100% | 100% |

### 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 8.0% for the year ending December 31, 2016 and 8.2% for the year ending December 31, 2015. 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.

| | As of December 31, 2016 (In millions) | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Estimated Fair Value** |
| Common stocks | $ - | $ 643 | $ - | $ 643 |
| Fixed maturities | | | | |
| U.S. Government | 2 | - | - | 2 |
| All other Government | - | 7 | - | 7 |
| States, Territories | - | 3 | - | 3 |
| Political Subdivisions | - | 1 | - | 1 |
| Special revenue | - | 6 | - | 6 |
| Industrial and Miscellaneous | - | 1,025 | - | 1,025 |
| Total Fixed maturities | 2 | 1,042 | - | 1,044 |
| Total | $ 2 | $ 1,685 | $ - | $ 1,687 |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

| | As of December 31, 2015 (In millions) | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Estimated Fair Value** |
| Common stocks | $ - | $ 736 | $ - | $ 736 |
| Fixed maturities | | | | |
| U.S. Government | 28 | - | - | 28 |
| All other Government | - | 8 | - | 8 |
| States, Territories | - | 4 | - | 4 |
| Political Subdivisions | - | 1 | - | 1 |
| Special revenue | - | 6 | - | 6 |
| Industrial and Miscellaneous | - | 857 | - | 857 |
| Hybrid | - | - | - | - |
| Total Fixed maturities | 28 | 876 | - | 904 |
| Preferred stocks | - | 17 | - | 17 |
| Total | $ 28 | $ 1,629 | $ - | $ 1,657 |

There were no financial instruments carried at fair value and classified as Level 3 for the years ending December 31, 2016 and 2015.

**Defined Contribution Plans**

The Company sponsors defined contribution plans. Home office employees are covered by investment and profit sharing plan pension plans 401(k)/401(a). Employees can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 10% (if not highly paid) of non-matched contributions. In addition, the Company provides a profit sharing allocation in proportion to salary. Field representatives are covered by a 401(k)/401(a) investment plan in which they can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 12% (if not highly paid) of non-matched contributions. The assets for the home office employees and field representatives' plans are held in a trust. Full time agents and general agents are covered by non-contributory plans. The Company contributed $24 million to these plans in 2016 and $25 million in 2015. The Company funds these plans and reflects the funded amounts as a liability.

### 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 losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income 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.

**NOTE 8 – INCOME TAXES (CONTINUED)**

The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

| | December 31, 2016 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ 1,895 | $ 45 | $ 1,940 |
| Statutory valuation allowance adjustments | - | - | - |
| Adjusted Gross Deferred Tax Assets | 1,895 | 45 | 1,940 |
| Deferred Tax Assets Nonadmitted | 274 | - | 274 |
| Subtotal Net Admitted Deferred Tax Asset | 1,621 | 45 | 1,666 |
| Deferred Tax Liabilities | 817 | 122 | 939 |
| Net Admitted Deferred Tax Asset | $ 804 | $ (77) | $ 727 |

| | December 31, 2015 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ 1,785 | $ 38 | $ 1,823 |
| Statutory valuation allowance adjustments | - | - | - |
| Adjusted Gross Deferred Tax Assets | 1,785 | 38 | 1,823 |
| Deferred Tax Assets Nonadmitted | 182 | - | 182 |
| Subtotal Net Admitted Deferred Tax Asset | 1,603 | 38 | 1,641 |
| Deferred Tax Liabilities | 808 | 126 | 934 |
| Net Admitted Deferred Tax Asset | $ 795 | $ (88) | $ 707 |

| | Change | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ 110 | $ 7 | $ 117 |
| Statutory valuation allowance adjustments | - | - | - |
| Adjusted Gross Deferred Tax Assets | 110 | 7 | 117 |
| Deferred Tax Assets Nonadmitted | 92 | - | 92 |
| Subtotal Net Admitted Deferred Tax Asset | 18 | 7 | 25 |
| Deferred Tax Liabilities | 9 | (4) | 5 |
| Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) | $ 9 | $ 11 | $ 20 |

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes. 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.

**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, 2016 and 2015.

### NOTE 8 – INCOME TAXES (CONTINUED)

| | December 31, 2016 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks. | $ 683 | $ 44 | $ 727 |
| 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) | - | - | - |
| The lesser of: | | | |
| i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | - | - | - |
| ii. Adjusted gross deferred tax assets allowed per limitation threshold. | N/A | N/A | - |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities. | 938 | 1 | 939 |
| Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.) | $ 1,621 | $ 45 | $ 1,666 |

| | December 31, 2015 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks. | $ 654 | $ 37 | $ 691 |
| 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) | 16 | - | 16 |
| The lesser of: | | | |
| i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | 16 | - | 16 |
| ii. Adjusted gross deferred tax assets allowed per limitation threshold. | N/A | N/A | 807 |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities. | 933 | 1 | 934 |
| Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.) | $ 1,603 | $ 38 | $ 1,641 |

| | Change | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks. | $ 29 | $ 7 | $ 36 |
| 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) | (16) | - | (16) |
| The lesser of: | | | |
| i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | (16) | - | (16) |
| ii. Adjusted gross deferred tax assets allowed per limitation threshold. | N/A | N/A | (807) |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. | 5 | - | 5 |
| Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.) | $ 18 | $ 7 | $ 25 |

| | 2016 | 2015 |
|---|---|---|
| Ratio percentage used to determine recovery period and threshold limitation amount | 996% | 1027% |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitation | $ 6,743 | $ 6,652 |

**NOTE 8 – INCOME TAXES (CONTINUED)**

**Impact of Tax Planning Strategies**

| | December 31, 2016 | |
|---|---|---|
| | Ordinary | Capital |
| 1. Adjusted Gross DTAs amount | 1,895 | 45 |
| 2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies | 0.0% | 2.3% |
| 3. Net Admitted Adjusted Gross DTAs amount | 1,621 | 45 |
| 4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies | 0.0% | 6.0% |

| | December 31, 2015 | |
|---|---|---|
| | Ordinary | Capital |
| 1. Adjusted Gross DTAs amount | 1,785 | 38 |
| 2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies | 0.3% | 2.0% |
| 3. Net Admitted Adjusted Gross DTAs amount | 1,478 | 163 |
| 4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies | 0.7% | 5.2% |

| | Change | |
|---|---|---|
| | Ordinary | Capital |
| 1. Adjusted Gross DTAs amount | 110 | 7 |
| 2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax | -0.3% | 0.3% |
| 3. Net Admitted Adjusted Gross DTAs amount from | 143 | (118) |
| 4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the | -0.7% | 0.8% |

Does the Company's tax-planning strategies include the use of reinsurance? Yes ______ No X

All DTL were recognized as of December 31, 2016 and December 31, 2015

**Current income taxes incurred consisted of the following major components:**

| Description | | December 31, 2016 | | December 31, 2015 | | Change |
|---|---|---|---|---|---|---|
| (In millions) | | | | | | |
| Federal income tax expense on operating income | $ | 169 | $ | 183 | $ | (14) |
| Prior year overaccrual | | (28) | | (51) | | 23 |
| Contingent tax | | - | | (50) | | 50 |
| Current Federal operations income tax expense | $ | 141 | $ | 82 | $ | 59 |
| Federal income tax expense on capital gains | $ | 136 | $ | 109 | $ | 27 |
| Prior year underaccrual | | 28 | | 23 | | 5 |
| Current Federal capital gain income tax expense | $ | 164 | $ | 132 | $ | 32 |
| Federal and foreign income taxes incurred | $ | 305 | $ | 214 | $ | 91 |

# 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:

| | 2016 | 2015 | Change |
|---|---|---|---|
| DTAs Resulting from Book/Income Tax Differences In: | | (In millions) | |
| Ordinary: | | | |
| Reserves | $ 617 | $ 601 | $ 16 |
| Policy acquisition costs | 411 | 393 | 18 |
| Dividend provision | 298 | 293 | 5 |
| Liabilities for employees and agents | 152 | 145 | 7 |
| Non admitted assets | 335 | 281 | 54 |
| Contract liabilities and unpaid claims | 1 | 1 | - |
| Leasehold improvement | 12 | 12 | - |
| Other | 69 | 59 | 10 |
| Gross ordinary DTA - (admitted and nonadmitted) | $ 1,895 | $ 1,785 | $ 110 |
| Statutory valuation allowance adjustment - ordinary | - | - | - |
| Total ordinary DTA - (nonadmitted) | 274 | 182 | 92 |
| Admitted ordinary DTA | 1,621 | 1,603 | 18 |
| Capital: | | | |
| Impaired securities | 39 | 30 | 9 |
| Unrealized capital losses | - | - | - |
| Other | 6 | 8 | (2) |
| Gross capital DTA - (admitted and nonadmitted) | 45 | 38 | 7 |
| Statutory valuation allowance adjustment - capital | - | - | - |
| Total capital DTA - (nonadmitted) | - | - | - |
| Admitted capital DTA | 45 | 38 | 7 |
| Total admitted DTA | $ 1,666 | $ 1,641 | $ 25 |
| DTLs Resulting from Book/Income Tax Differences In: | | | |
| Ordinary: | | | |
| Deferred and uncollected premiums | $ 370 | $ 357 | $ 13 |
| Guaranteed dividend | 202 | 199 | 3 |
| Other invested assets | 86 | 90 | (4) |
| Pension | 64 | 85 | (21) |
| Reserves 10 Year spread | 27 | 16 | 11 |
| Other | 68 | 61 | 7 |
| Ordinary DTL | $ 817 | $ 808 | $ 9 |
| Capital: | | | |
| Unrealized capital gains | 26 | 41 | (15) |
| Deferred gain | 92 | 84 | 8 |
| Other | 4 | 1 | 3 |
| Capital DTL | 122 | 126 | (4) |
| Total DTL | $ 939 | $ 934 | $ 5 |
| Net admitted DTA/(DTL) | $ 727 | $ 707 | $ 20 |

The Change in net deferred income taxes is comprised of the following:

| | | | |
|---|---|---|---|
| Adjusted gross deferred tax assets | $ 1,940 | $ 1,823 | $ 117 |
| Total Deferred Tax Liabilities | 939 | 934 | 5 |
| Net deferred tax assets (liabilities) | $ 1,001 | $ 889 | $ 112 |
| Tax effect of net unrealized gains (losses) | | | (20) |
| Change in net deferred income tax | | | $ 92 |

### 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:

| | December 31, 2016 | Effective Tax Rate |
|---|---|---|
| | (In millions) | |
| Net gain from operations after dividends to policyholders and before Federal income tax @ 35% | $ 181 | |
| Net realized capital gains (losses) @ 35% | 54 | |
| Provision calculated at statutory rate | 235 | 35.00% |
| Tax effect of: | | |
| Interest maintenance reserve | 32 | 4.76% |
| Pension Adjustment | (56) | (8.33%) |
| Affordable Care Act Fees | 12 | 1.79% |
| Other | (10) | (1.37%) |
| Total statutory income taxes | $ 213 | 31.85% |
| Federal income taxes incurred | 305 | 45.39% |
| Change in net deferred income taxes | (92) | (13.54%) |
| Total statutory income taxes | $ 213 | 31.85% |

**Operating Loss and Tax Credit Carryforwards**

As of December 31, 2016, 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:

| Year | Ordinary | Capital | Total |
|---|---|---|---|
| | | (In millions) | |
| 2016 | $ 168 | $ 136 | $ 304 |
| 2015 | 155 | $ 137 | $ 292 |
| 2014 | 91 | $ 103 | 194 |
| Total | $ 414 | $ 376 | $ 790 |

As of December 31, 2016, the Company does not have any deposits admitted pursuant to the Internal Revenue Code Section 6603.

**NOTE 8 – INCOME TAXES (CONTINUED)**

**Contingent Tax Liabilities**

As of December 31, 2016, the Company had no unrecognized tax benefits and related interest expense, if recognized, all of which would affect the Company's annual effective tax rate. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ending December 31, 2016, and year ending December 31, 2015, the Company recognized approximately $0 and ($50) million in interest and penalties. The Company has no accrued interest and penalties at December 31, 2016, and December 31, 2015, respectively.

The amount recognized in 2015 is primarily related to the timing of the deduction for the policyholder dividends liabilities. During 2015, a court case ruling, in the taxpayer's favor, was issued for another mutual insurance company in which the facts were similar to the Company's tax position. Management concluded that it is more-likely-than-not that the Company would sustain its tax position on this issue if challenged by the Internal Revenue Service. As a result, the Company released the contingent tax liabilities.

The Company files U.S. federal income tax returns along with various state and local income tax returns. The Company's federal income tax returns are routinely examined by the Internal Revenue service ("IRS") and provisions are made in the financial statements in anticipation of the results of these audits. In 2015, the IRS has completed its examinations for tax years 2009 and 2010. There were no material effects on the Company's consolidated financial position and results of operations as a result of these examinations. Tax years 2011 through 2015 are subject to examination by the IRS. The Company believes that it has established adequate tax liabilities for uncertain tax positions for all open years.

### 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:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ (460) | $ (457) |
| Commissions and expense allowances (other income) | 119 | 111 |
| Total revenues | (341) | (346) |
| Benefit payments to policyholders and beneficiaries | (359) | (337) |
| Net reductions to policy benefit reserves | (86) | (144) |
| Commissions and operating expenses | 5 | 3 |
| Total expenses | (440) | (478) |
| Net gain on operations from reinsurance ceded | $ 99 | $ 132 |

### NOTE 10 – REINSURANCE ASSUMED

The Company enters into various modified coinsurance agreements, coinsurance agreements, and combinations thereof and yearly renewable term agreements that provide reinsurance on life insurance, annuities, credit life, disability insurance, and credit accident and health business. Under the terms of the various reinsurance treaties, the Company assumed (net of retrocession) approximately \$3.4 billion face amount of life insurance at December 31, 2016 and \$3.6 billion at December 31, 2015. Under the terms of modified coinsurance agreements, reserves related to the reinsured business and the corresponding assets are held by the ceding company.

The Company entered into a coinsurance agreement with BLICOA an affiliated insurance company effective January 1, 2013. Under the agreement, the Company assumed 80% of the net individual disability insurance (IDI) originally ceded to BLICOA from the Company via the July 1, 2001 coinsurance treaty as well as 80% of the IDI and multi-life (ML) business written by BLICOA since the 2001 treaty. The reinsurance is done on a funds withheld basis with supporting invested assets remaining in BLICOA. Under the terms of the coinsurance agreement the Company assumed \$2,031 million in ceded reserves from BLICOA, while BLICOA retained the corresponding assets, on January 1, 2013.

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 January 2016, as part of the terms of its reinsurance agreement with BLICOA, the Company requested that BLICOA pay a partial amount of the Annual Funds Withheld Increase it recorded in 2015. BLICOA paid the Company the agreed upon settlement amount of \$65 million in January 2016. The settlement consisted of \$33 million of bonds and \$32 million of cash. In December 2015, GLICOA requested and BLICOA settled an amount equal to the 2014 increase in the funds withheld of \$160 million. The December 2015 settlement of \$160 million consisted of \$87 million of bonds, \$1 million in accrued interest and \$72 million of cash.

The Company entered into one Individual Life Yearly Renewable Term reinsurance agreement with an affiliated insurance company GIAC, effective January 1, 2011. The agreement covers GIAC's current form Secondary Guarantee Universal Life and Survivorship Universal Life plans having policy effective dates of January 1, 2011 and later. Reinsurance under the new agreement is assumed on an automatic 90% first dollar quota share basis.

### 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**

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ 639 | $ 619 |
| Reserve adjustments on reinsurance (other income) | 23 | 29 |
| Total revenues | 662 | 648 |
| Benefit payments to policyholders and beneficiaries | 275 | 266 |
| Net additions to policy benefit reserves | 126 | 200 |
| Commissions and operating expenses | 210 | 201 |
| Total expenses | 611 | 667 |
| Net gain/(loss) on operations from reinsurance assumed | $ 51 | $ (19) |

**Reinsurance Assumed from Non-Affiliates**

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ 2 | $ 3 |
| Total revenues | 2 | 3 |
| Benefit payments to policyholders and beneficiaries | (2) | 31 |
| Net reductions to policy benefit reserves | (1) | (32) |
| Commissions and operating expenses | 7 | (14) |
| Total expenses | 4 | (15) |
| Net (loss)/gain on operations from reinsurance assumed | $ (2) | $ 18 |

**Total Reinsurance Assumed**

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ 641 | $ 622 |
| Reserve adjustments on reinsurance (other income) | 23 | 29 |
| Total revenues | 664 | 651 |
| Benefit payments to policyholders and beneficiaries | 273 | 297 |
| Net additions to policy benefit reserves | 125 | 168 |
| Commissions and operating expenses | 217 | 187 |
| Total expenses | 615 | 652 |
| Net gain/(loss) on operations from reinsurance assumed | $ 49 | $ (1) |

### NOTE 11 – RELATED PARTY TRANSACTIONS

The Company maintained investments in affiliated mutual funds amounting to $219 million at December 31, 2015.

During 2016 and 2015, the Company sold $27 million and $170 million of bank loans that it held in its general account to a downstream affiliate, Park Avenue Institutional Advisers CLO LTD 2016-1 ("PAIA CLO 2016-1"). The Company recorded a $1 million loss on the sale of the bank loans in both 2016 and 2015. PAIA CLO 2016-1 is a special purpose vehicle ("SPV") that was established in the Cayman Islands whose purpose is to be the "Issuer" of one or more classes of notes that will be secured by a portfolio of investments held by the Issuer and rated by at least one rating agency (the "Rated Notes"), and one or more classes of notes that are unrated and subordinate in right of payment to the Rated Notes (the "Subordinated Notes"). PAIA CLO 2016-1 issued $363 million in notes in August 2016.

In 2016 and 2015, 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:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Guardian CapCo, LLC | $ 3 | $ 3 |
| Guardian LCP Hospitality Finance, LLC | - | 1 |
| Truamerica Multifamily, LLC | - | 6 |
| Truamerica Properties, LLC | 7 | 9 |
| Truamerica Properties II, LLC | 1 | 21 |
| Lowes Capital Partners 2A, LLC | 3 | 6 |
| Lowes Capital Partners 2B, LLC | 2 | 2 |
| Guardian Desail Holdings, LLC | - | 12 |
| Guardian Mercury Holdings, LLC | - | 9 |
| Hanover Hoffman Estates, LLC (1) | - | 19 |
| Hanover Swanee, LLC (1) | - | 1 |
| Guardian Abbey, LLC | 1 | 2 |
| Guardian Shores, LLC | 16 | - |
| Total | $ 33 | $ 91 |

(1) Capital contributions were made by transferring mortgage loan investments.

In 2016 and 2015, the Company made the following capital contributions to its subsidiaries:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| GIAC | $ 100 | $ 50 |
| GIS | 365 | 155 |
| FCW | 204 | - |
| Total | $ 669 | $ 205 |

### NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

The capital contribution to GIS is 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 $365 million contribution to GIS in 2016, $235 million was made by transferring real estate joint venture LLCs and $130 million was made by transferring Reed Group, Ltd., a previously wholly owned subsidiary of FCW.

In 2016 and 2015, the Company received returns of capital from its real estate affiliates as follows, which are a reduction to Other invested assets in the Statutory Basis Balance Sheets:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Guardian CapCo, LLC | $ - | $ 7 |
| Guardian LCP Hospitality I, LLC | 1 | 1 |
| Guardian Campus Holdings, LLC | - | 1 |
| Guardian Westwood Holdings, LLC | 10 | 1 |
| Guardian LCP Hospitality Finance, LLC | 3 | 3 |
| Guardian Commercial I,LLC | - | 7 |
| Total | $ 14 | $ 20 |

In 2016 and 2015, the Company received net returns of capital of $56 million and $77 million respectively from its real estate joint ventures. These distributions are a reduction to Other invested assets in the Statutory Basis Balance Sheets.

In 2016 and 2015, the Company also received returns of capital from its subsidiaries as follows which are a reduction to Common and preferred stocks in the Statutory Basis Balance Sheets:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| BLICOA | $ 20 | $ 65 |
| FCW | 158 | 9 |
| GIS | 178 | - |
| Total | $ 356 | $ 74 |

Of the $158 million return of capital from FCW in 2016, $130 million was a transfer of Reed Group Ltd., a wholly owned subsidiary of FCW.

In 2016 and 2015, 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:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| BLICOA | $ 6 | $ 6 |
| Managed Dental Care of California ("MDC") | 5 | 3 |
| Managed Dental Guard of Texas, Inc. (TX) | 1 | 1 |
| Guardian CapCo, LLC | - | 3 |
| Guardian LCP Hosp Finance, LLC | - | 1 |
| Guardian Commercial I,LLC | - | 4 |
| Park Avenue Life Insurance Company | - | 25 |
| | $ 12 | $ 43 |

### NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

The Company has expense sharing agreements with its subsidiaries. During 2016 and 2015, the Company had net billings of $296 million and $301 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 $29 million and $31 million on December 31, 2016 and December 31, 2015, respectively, and are included in Other assets and Other liabilities in the Statutory Basis Balance Sheets.

The Company (Lender) has a revolving line of credit agreement with GIAC (Borrower). Effective May 1, 2015, the revolving line of credit between the Company and GIAC increased from $225 million to $300 million, which was further increased to $350 million effective December 3, 2015. 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. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender shall notify the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIAC is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2016, and 2015 the amounts of drawings on the line of credit amounted to $148 million and $105 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 $2.4 million and $2.2 million for the twelve months ended December 31, 2016 and 2015, respectively, are included in Net investment income in the Statutory Basis Statements of Operations.

Effective April 30, 2015, the Company (Lender) entered into a new revolving line of credit agreement with RS (Borrower) for $15 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 the Eurodollar rate plus 1.00%. 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 .15% 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 and on the termination of this line of credit. The line of credit agreement had a term of twelve months beginning with the date first stated above and ending on April 30, 2016. The maturity date of the line was subsequently extended to July 29, 2016. As of December 31, 2015, the amount of drawings on the line of credit amounted to $15 million and is included in Cash, cash equivalents and short term investments in the Statutory Basis Balance Sheets. Interest income and commitment income of $0 million and $0 million for the twelve months ended December 31, 2016 and December 31, 2015 respectively are included in Net investment income in the Statutory Basis Statements of Operations. This revolving line of credit terminated upon the sale of RS on July 29, 2016.

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.

In 1996, the Company provided MDC, a subsidiary, a written letter of financial support for $5 million. The letter was necessary for regulatory purposes in order to guarantee additional capital infusion to its California dental subsidiary as needed. The Company funded $1.5 million to MDC prior to 2012. This amount was recorded as an additional investment in MDC. 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.

**NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)**

As of December 31, 2015, the Company committed to make capital contributions to the following real estate joint venture subsidiaries for the purpose of investing in future properties:

| | 2015 |
|---|---|
| | (In millions) |
| Guardian CapCo, LLC | $ 11 |
| Guardian LCP Commercial I, LLC | 30 |
| Guardian LCP Hospitality Finance, LLC | 2 |
| Truamerica Properties, LLC | 7 |
| Truamerica Properties II, LLC | 10 |
| Guardian LEI Co Investment | - |
| Guardian LCP2A, LLC | 6 |
| Berkshire Portfolio | 4 |
| Guardian Mercury - Gemini Holdings, LLC | 5 |
| Guardian SLC Redwood Holdings, LLC | 4 |
| Total | $ 79 |

As of December 31, 2016, the Company had no commitments to make capital contributions to its' subsidiaries.

**Settlement of Intercompany Transactions:**

In accordance with NAIC SAP, all transactions between related parties are required to have a written agreement that provides for a timely settlement of amounts owed, including a specific due date. Amounts over ninety days due are to be non-admitted along with any uncollected receivable from a related party that is not part of a written agreement. The Company has determined that written agreements are in place for all intercompany transactions and that these written agreements contain specific due dates. As of December 31, 2016, there was no intercompany receivable that was more than 90 days past due.

## 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:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at January 1 | $ 3,574 | $ 3,300 |
| Incurred related to: | | |
| Current year | 2,283 | 2,127 |
| Prior years | (90) | (75) |
| Affiliated reinsurance | 106 | 161 |
| Total incurred | 2,299 | 2,213 |
| Paid related to: | | |
| Current year | 1,526 | 1,438 |
| Prior years | 332 | 289 |
| Affiliated reinsurance | 227 | 212 |
| Total paid | 2,085 | 1,939 |
| Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at December 31 | $ 3,788 | $ 3,574 |

The affiliated reinsurance for the years ended December 31, 2016 and December 31, 2015 is primarily due to an intercompany reinsurance agreement between the Company and BLICOA effective January 1, 2013.

**Loss / Claim Adjustment Expenses:**
The balance in the liability for unpaid accident and health claim adjustment expenses was $79 million and $80 million as of December 31, 2016 and December 31, 2015, respectively. The Company incurred $49 million and paid $49 million of claims adjustment expenses in 2016 of which $14 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.

## 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, 2016 and December 31, 2015:

| | 2016 | | |
|---|---|---|---|
| | ASO Uninsured Plans | Uninsured Portion of Partially Insured Plans | Total ASO |
| | | (In millions) | |
| Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses | $ 4.4 | $ - | $ 4.4 |
| Total net other income or expenses (including interest paid to or received from plans) | 1.5 | - | 1.5 |
| Net gain from operations | 2.9 | - | 2.9 |
| Total claim payment volume | 488 | - | 488 |

| | 2015 | | |
|---|---|---|---|
| | 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 | $ 2.7 | $ - | $ 2.7 |
| Total net other income or expenses (including interest paid to or received from plans) | 0.9 | - | 0.9 |
| Net gain from operations | 1.8 | - | 1.8 |
| Total claim payment volume | 461 | - | 461 |

**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, 2016 and $21 million for the year ended December 31, 2015. Sublease income was $9 million for the year ended December 31, 2016 and $9 million for the year ended December 31, 2015.

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.

The following is a schedule by year of the minimum rental payments due under the lease:

| | (In millions) | |
|---|---|---|
| Year ending December 31, | | |
| 2017 | $ | 21 |
| 2018 | | 21 |
| 2019 | | 16 |
| Total | $ | 58 |

The minimum aggregate sublease income is as follows:

| | | |
|---|---|---|
| Year ending December 31, | | |
| 2017 | $ | 9 |
| 2018 | | 9 |
| 2019 | | 7 |
| Total | $ | 25 |

### NOTE 14 – LEASES (CONTINUED)

**Other Leases:**
Substantially all remaining leases of the Company are operating leases principally for the rental of real estate. Rental expense for these properties was $20 million for year ended December 31, 2016 and $16 million for the year ended December 31, 2015.

On January 26, 2015 the Company signed a long-term 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. Beginning in June 2016 the Company began using the building for business support operations. The twenty year lease obligates the Company 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, | | |
| 2017 | $ | 22 |
| 2018 | | 19 |
| 2019 | | 17 |
| 2020 | | 16 |
| Total | $ | 74 |

The minimum aggregate sublease income is as follows:

| | | (In millions) |
|---|---|---|
| Year ending December 31, | | |
| 2017 | $ | 7 |
| 2018 | | 6 |
| 2019 | | 6 |
| 2020 | | 6 |
| Total | $ | 25 |

The Company guarantees the leases for some of its agents. The fair value of the guarantees as of December 31, 2016 is estimated to be $1 million. The remaining lease obligations that are guaranteed as of December 31, 2016 is $19.4 million.

### NOTE 15 – COMMITMENTS

Commitments to fund real estate, private equities, mortgage loans, and private placements in the normal course of business totaled $1,416 million and $1,160 million as of December 31, 2016 and December 31, 2015, respectively.

### NOTE 16 – LITIGATION

The Company is engaged in various legal actions, in the ordinary course of business, arising out of its insurance, broker-dealer and investment operations. In the opinion of management, any losses together with the ultimate liability resulting from such actions would not have a material adverse effect on the financial position of the Company.

### NOTE 17 – LINES OF CREDIT

The Company has $75 million in unsecured credit available. The interest rate on these lines is calculated on a base rate such as the bank's Prime rate plus a spread which varies from 0 - 125bps depending on the bank, or LIBOR plus a spread which varies from 75 - 125bps depending on the bank. The Company did not use the lines of credit during 2016 or 2015 and had $0 outstanding liability at December 31, 2016 or December 31, 2015.

### NOTE 18 – POLICYHOLDERS' SURPLUS

There were no special contingency reserves included in policyholder's surplus at December 31, 2016 or December 31, 2015. The Company holds other reserves totaling $4 million at December 31, 2016 and 2015, as required by New York State law for aviation business and Arkansas permanent surplus requirements. Surplus at December 31, 2016 and December 31, 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Accumulated earnings | $ 7,676 | $ 7,470 |
| Unrealized loss - common stock | (309) | (281) |
| Asset valuation reserve | (810) | (798) |
| Nonadmitted asset values | (389) | (305) |
| Total unassigned surplus | 6,168 | 6,086 |
| State required segregated surplus | 4 | 4 |
| Surplus | $ 6,172 | $ 6,090 |

### 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:

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Statutory net income | $ 368 | $ 433 |
| Adjustments to GAAP basis: | | |
| Realized capital gains | 257 | 294 |
| Capitalization of deferred policy acquisition costs | 61 | (11) |
| Future policy benefits | (1,080) | (970) |
| Elimination of IMR amortization | (122) | (103) |
| Establishment of deferred federal income taxes | (1) | 127 |
| Service fees | 1,086 | 735 |
| Policyholder dividends | 5 | 27 |
| Elimination of interest on affiliate reinsurance | (140) | (141) |
| Other | 49 | (41) |
| Consolidated GAAP income | $ 483 | $ 350 |

## NOTE 19 – FINANCIAL INFORMATION (CONTINUED)

| | 2016 | 2015 |
|---|---|---|
| | (In millions) | |
| Statutory surplus | $ 6,172 | $ 6,090 |
| Adjustments to GAAP basis: | | |
| Capitalization of deferred policy acquisition costs | 3,817 | 3,854 |
| Deferred software costs | 37 | 48 |
| Future policy benefits | (7,342) | (6,967) |
| Elimination of IMR | 464 | 373 |
| Elimination of AVR | 810 | 798 |
| Establishment of additional deferred federal income taxes | (1,240) | (1,126) |
| Policyholder dividends | 401 | 396 |
| Notes payable | (1,210) | (845) |
| Unrealized gains on investments and GAAP adjustments of affiliates | 8,714 | 7,286 |
| Consolidated GAAP equity | $ 10,623 | $ 9,907 |

## NOTE 20 – SURPLUS NOTE

On October 6, 2009, the Company issued Surplus Notes ("Existing 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 Existing Notes were $392.4 million, net of discounts and fees. The Existing 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 Existing Notes is scheduled to be paid semiannually on March 31 and September 30 of each year. The Existing 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 Existing Notes are not part of the legal liabilities of the Company. The Existing 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 Existing 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 Existing 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 Existing Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 50 basis points. The Company paid $30 million in interest for the years ended December 31, 2016 and 2015, respectively.

On June 19, 2014 the Company issued Surplus Notes ("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 Notes were $444.6 million, net of discounts and fees. The 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 Notes is scheduled to be paid semiannually on June 19 and December 19 of each year. The 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 Notes are not part of the legal liabilities of the Company. The 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 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 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 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 in interest for the years ended December 31, 2016 and 2015, respectively.

### NOTE 21 – UNCLAIMED PROPERTY

The Company holds reserves for potential liability totaling $12 million at December 31, 2016 and December 31, 2015, respectively. The Company has recorded paid claims of $0 million in 2016 and $4 million in 2015.

### 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, 2016 of $35 million and as of January 1, 2015 of $35 million. It paid the actual fee amount of $35 million and $36 million to the U.S. Treasury in September 2016 and 2015, respectively. The 2016 fee amount was based on $1,995 million of dental and vision premiums written in 2015.

The Consolidated Appropriations Act, 2016 imposes a moratorium on the health insurance industry assessment mandated by the Affordable Care Act for the 2017 calendar year. Therefore there are no health insurance provider fees due in 2017 and no liability will be recorded.

### NOTE 23 – SUBSEQUENT EVENTS

The Company considers events occurring after the balance sheet date but prior to February 21, 2017, the issuance of the financial statements to be subsequent events requiring disclosure.

On January 24, 2017, the Company issued a Surplus Note with a principal balance of $350 million, bearing interest at 4.850%, and a maturity date of January 24, 2077. Proceeds from the issuance was $343.6 million, net of discounts and fees.

As mentioned in Note 14, on January 9, 2017, the Company exercised the purchase option on its New York home office.

On January 3, 2017 the Company (Lender) extended a $300 million revolving line of credit to GIS (Borrower). The line of credit agreement has an initial term of 364 days and shall automatically renew for successive periods of 364 days, unless the Lender shall notify the Borrower of its intention not to renew the line of credit agreement sixty (60) days prior to the expiration of the then existing term. As of the statement date GIS has drawn down the amount of $13.1 million on the line of credit.

**Guardian Life Insurance Company of America**
**Annual Statement for the Year Ended December 31, 2016**
**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.

| | | | 2016 Annual Statement References |
|---|---|---|---|
| **Investment Income Earned** | | | Exhibit of Net Investment Income |
| Government Bonds | $ | 29,910,730 | |
| Bonds Exempt From US Tax | | | |
| Other Bonds (unaffiliated) | | 1,514,704,457 | |
| Bonds of Affiliates | | | |
| Preferred Stocks (unaffiliated) | | 7,083,355 | |
| Preferred Stocks of Affiliates | | | |
| Common Stocks (unaffiliated) | | 9,259,323 | |
| Common Stocks of Affiliates | | 6,186,400 | |
| Mortgages Loans | | 169,350,488 | |
| Real Estate | | 72,911,008 | |
| Contract Loans | | 247,169,937 | |
| Cash/Short-term Investments | | 4,221,267 | |
| Other Invested Assets | | 538,984 | |
| Derivative Instruments | | 178,537,420 | |
| Aggregate Write-Ins for Investment Income | | 7,219,637 | |
| Gross Investment Income | $ | 2,247,093,006 | |
| **Real Estate Owned - Book Value less Encumbrances** | $ | 374,200,532 | Schedule A - Part I |
| **Mortgage Loans - Book Value:** | | | |
| Farm Mortgages | $ | - | Schedule B - Part 1 |
| Residential Mortgages | | - | |
| Commercial Mortgages | | 3,471,561,688 | |
| Total Mortgage Loans | $ | 3,471,561,688 | |
| **Mortgage Loans by Standing - Book Value:** | | | |
| Good Standing | | 3,471,561,688 | Schedule B, Part 1 |
| Good Standing with Restructured Terms | | - | Schedule B, Part 1 |
| Interest overdue more than 90 days, not in foreclosure | | - | Schedule B, Part 1 |
| Foreclosure in Process | | - | Schedule B, Part 1 |
| **Other Long Term Assets - Statement Value** | | 1,793,047,289 | Schedule BA, Part 1 |
| **Bonds and Stocks of Parents, Subsidiaries and Affiliates - Book Value** | | | Schedule D - Summary by Country |
| Bonds | | 35,447,350,772 | |
| Preferred Stocks | | 40,486,681 | |
| Common Stocks | | 1,481,662,099 | |

## Schedule 1 - Selected Financial Data - Continued

| | | | 2016 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 | $ | 1,547,519,127 | |
| Over 1 year through 5 years | | 6,456,149,175 | |
| Over 5 years through 10 years | | 11,724,160,033 | |
| Over 10 years through 20 years | | 4,324,132,310 | |
| Over 20 years | | 12,210,820,152 | |
| Total by Maturity | $ | 36,262,780,797 | |
| **Bonds by Class - Statement Value** | | | |
| Class 1 | $ | 18,937,590,834 | |
| Class 2 | | 15,015,620,352 | |
| Class 3 | | 1,202,324,319 | |
| Class 4 | | 1,003,211,321 | |
| Class 5 | | 101,849,041 | |
| Class 6 | | 2,184,902 | |
| Total by Class | $ | 36,262,780,769 | |
| **Total Bonds Publicly Traded** | | 23,857,912,656 | |
| **Total Bonds Privately Placed** | | 12,404,868,113 | |
| **Preferred Stocks - Statement Value** | | 40,486,681 | Schedule D, Part 2, Sec. 1 |
| **Common Stocks - Market Value** | | 1,481,662,099 | Schedule D, Part 2, Sec. 2 |
| **Short Term Investments - Book Value** | | 25,663,330 | Schedule DA, Part 1 |
| **Options, Caps Floors, Collars, Swaps and Forwards** | | 18,595,558 | Schedule DB, Part A, |
| **Futures Contracts** | | 19,574,571 | Schedule DB, Part B, |
| **Cash on Deposit** | | 6,412,801 | Schedule E, Part 1 |
| **Life Insurance In Force** | | | Exhibit of Life Insurance |
| Industrial | | - | |
| Ordinary | | 354,638,800 | |
| Credit Life | | - | |
| Group Life | | 236,177,629 | |
| **Amount of Accidental Death Insurance In Force Under** | | | |
| Ordinary Policies | | 2,031,115 | Exhibit of Life Insurance |
| **Life Insurance Policies with Disability Provisions In Force** | | | Exhibit of Life Insurance |
| Industrial | | - | |
| Ordinary | | 189,376,271 | |
| Credit Life | | - | |
| Group Life | | 235,958,431 | |
| **Supplementary Contracts In Force** | | | Exhibit of Number of Policies, |
| Ordinary - Not Involving Life Contingencies | | - | Contracts,Certificates,Income Payable, |
| Amount on Deposit | | 224,797,960 | Account Values In Force for Supplementary |
| Income Payable | | 16,992 | Contracts, Annuities, A&H and Other Policies |
| **Ordinary - Involving Life Contingencies** | | | |
| Income Payable | | 376 | |

**Schedule 1 - Selected Financial Data - Continued**

| | | 2016 Annual Statement References |
|---|---|---|
| Group - Not Involving Life Contingencies | | |
| Amount on Deposit | 49,072,055 | |
| Income Payable | - | |
| Group - Involving Life Contingencies | | |
| Amount on Deposit | - | |
| Income Payable | - | |
| **Annuities - Ordinary** | | Exhibit of Number of Policies, Contracts, Certificates, Income Payable, Account Values In Force for Supplementary Contracts, Annuities, A&H and Other Policies |
| Immediate - Amount of Income Payable | 633,044 | |
| Deferred - Fully Paid Account Balance | 59,666,865 | |
| Deferred - Not Fully Paid - Account Balance | 153,110,944 | |
| **Annuities - Group** | | |
| Amount of Income Payable | 1,717,130 | 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 | 5,208,395 | |
| Not Fully Paid - Account Balance | - | |
| **Accident and Health Insurance - Premiums In Force** | | |
| Ordinary | - | |
| Group | 2,981,328,401 | |
| Credit | - | |
| Other | 477,013,497 | |
| **Deposit Funds and Dividend Accumulations** | | Exhibit of Number of Policies, Contracts, Certificates, Income Payable, Account Values In Force for Supplementary Contracts, Annuities, A&H and Other Policies |
| Deposit Funds - Account Balance | 24,743,997 | |
| Dividend Accumulations - Account Balance | 102,188,160 | |
| **Claim Payments 2016** | | Schedule O, Part 1 |
| Group Accident and Health Year - Ended December 31, 2015 | | Section A |
| 2016 | 1,520,870 | |
| 2015 | 194,511 | |
| 2014 | 37,364 | |
| 2013 | 19,747 | |
| 2012 | 13,899 | |
| Prior | 94,785 | |
| Other Accident & Health | | Section B |
| 2016 | 26,037 | |
| 2015 | 28,819 | |
| 2014 | 22,369 | |
| 2013 | 18,533 | |
| 2012 | 17,628 | |
| Prior | 123,403 | |
| Credit Accident & Health | - | Section C |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| 2012 | - | |
| Prior | - | |

## Schedule 1 - Selected Financial Data - Continued

| | | 2016 Annual Statement References |
|---|---|---|
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section D |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| 2012 | - | |
| Prior | - | |
| | | |
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section E |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| 2012 | - | |
| Prior | - | |
| | | |
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section F |
| 2016 | - | |
| 2015 | - | |
| 2014 | | |
| 2013 | - | |
| 2012 | - | |
| Prior | - | |
| | | |
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section G |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| 2012 | - | |
| Prior | - | |

**The Guardian Life Insurance Company of America**
**Investments of Reporting Entities**
**December 31, 2016**

**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.
$51,883,712,173

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 | OTHER INVESTED ASSETS | $ | 709,697,254 | 1.4% |
| 2.02 | FIRST COMMON WEALTH INSURANCE COMPANY | STOCK | $ | 508,269,458 | 1.0% |
| 2.03 | GUARDIAN INS & ANNUITY CO NY, NY | STOCK | $ | 260,382,803 | 0.5% |
| 2.04 | VERIZON COMMUNICATIONS | BONDS/STOCK | $ | 216,311,227 | 0.4% |
| 2.05 | AT&T INC | BONDS/STOCK | $ | 207,609,565 | 0.4% |
| 2.06 | BERKSHIRE LIFE INSURANCE CO OF AMERICA | STOCK | $ | 201,638,797 | 0.4% |
| 2.07 | BANK OF AMERICA CORP. | BONDS/STOCK | $ | 195,573,107 | 0.4% |
| 2.08 | AMGEN INC | BONDS/STOCK | $ | 167,916,850 | 0.3% |
| 2.09 | ENTERPRISE PRODUCTS OPER | BONDS | $ | 158,963,565 | 0.3% |
| 2.10 | HISTORIC TW INC | BONDS/STOCK | $ | 149,568,093 | 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 | $ | 18,941,574,959 | 36.5% | P/RP-1 | $ | - | 0.0% |
| 3.02 | NAIC-2 | $ | 15,010,620,352 | 28.9% | P/RP-2 | $ | 14,500,589 | 0.0% |
| 3.03 | NAIC-3 | $ | 1,207,324,319 | 2.3% | P/RP-3 | $ | | 0.0% |
| 3.04 | NAIC-4 | $ | 999,227,196 | 1.9% | P/RP-4 | $ | | 0.0% |
| 3.05 | NAIC-5 | $ | 101,849,041 | 0.2% | P/RP-5 | $ | | 0.0% |
| 3.06 | NAIC-6 | $ | 2,184,902 | 0.0% | P/RP-6 | $ | 25,986,092 | 0.1% |

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 assts?
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 | $ | 6,436,425,567 | 12.4% |
| 4.03 | Foreign-currency-denominated investments | $ | 364,652,344 | 0.7% |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | - | 0.0% |

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

| | | 1 | 2 |
|---|---|---|---|
| 5.01 Countries rated NAIC-1 | $ | 5,968,077,422 | 11.5% |
| 5.02 Countries rated NAIC-2 | $ | 420,923,774 | 0.8% |
| 5.03 Countries rated NAIC-3 or below | $ | 47,000,000 | 0.1% |

6. Largest foreign investment exposures to a single country, categorized by NAIC sovereign rating:

| | | 1 | 2 |
|---|---|---|---|
| Countries rated NAIC-1 | | | |
| 6.01 Country: Great Britain | $ | 1,780,046,213 | 3.4% |
| 6.02 Country: Australia | $ | 1,158,219,044 | 2.2% |
| Countries rated NAIC-2: | | | |
| 6.03 Country: Mexico | $ | 246,246,095 | 0.5% |
| 6.04 Country: Spain | $ | 55,724,928 | 0.1% |
| Countries rated NAIC-3 or below | | | |
| 6.05 Country: Bahamas | $ | 22,000,000 | 0.0% |
| 6.06 Country: Costa Rica | $ | 17,000,000 | 0.0% |

| | | | |
|---|---|---|---|
| 7. Aggregate unhedged foreign currency exposure: | $ | - | 0.0% |

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

| | | 1 | 2 |
|---|---|---|---|
| 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:

| | | 1 | 2 |
|---|---|---|---|
| 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 | GE CAPITAL INTL FUNDING | 1 | $ | 58,634,352 | 0.1% |
| 10.02 | SIEMENS FINANCIERINGSMAT | 1 | $ | 54,710,026 | 0.1% |
| 10.03 | BHP BILLITON FIN USA LTD | 1 | $ | 54,272,691 | 0.1% |
| 10.04 | COOPERATIEVE RABOBANK UA | 1 | $ | 52,509,171 | 0.1% |
| 10.05 | HS1 LIMITED | 1 | $ | 50,000,000 | 0.1% |
| 10.06 | CRED SUIS GP FUN LTD | 2 | $ | 46,043,687 | 0.1% |
| 10.07 | RIO TINTO FIN USA LTD | 1 | $ | 40,123,990 | 0.1% |
| 10.08 | ACTAVIS FUNDING SCS | 1 | $ | 39,234,485 | 0.1% |
| 10.09 | VALE OVERSEAS LIMITED | 1 | $ | 38,969,502 | 0.1% |
| 10.10 | STATOIL ASA | 1 | $ | 38,364,045 | 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<br>Name of Issuer | | 2 | 3 |
|---|---|---|---|---|
| 13.02 | GUARDIAN INVESTOR SERVICES | $ | 709,697,254 | 1.4% |
| 13.03 | FIRST COMMON WEALTH INSURANCE COMPANY | $ | 508,269,458 | 1.0% |
| 13.04 | GUARDIAN INS & ANNUITY CO NY, NY | $ | 260,382,803 | 0.5% |
| 13.05 | BERKSHIRE LIFE INSURANCE CO OF AMERICA | $ | 201,638,797 | 0.4% |
| 13.06 | VICTORY MUTUAL FUNDS | $ | 123,818,705 | 0.2% |
| 13.07 | ISHARES IBOXX HIGH YIELD COR ETF | $ | 107,904,638 | 0.2% |
| 13.08 | ISHARES IBOXX INVESTMENT GRADE | $ | 70,846,009 | 0.1% |
| 13.09 | PARK AVENUE LIFE INSURANCE COMPANY | $ | 63,530,025 | 0.1% |
| 13.10 | ISHARES RUSSELL MIDCAP INDEX FUND | $ | 37,523,576 | 0.1% |
| 13.11 | ISHARES RUSSELL 2000 | $ | 31,635,540 | 0.1% |

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01. Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?
Yes [X ] No [ ]

If response to 14.01 is yes, responses are not required for the remainder of Interrogatory 14.

| | 1 | | 2 | 3 |
|---|---|---|---|---|
| 14.02 | Aggregate statement value of investments held in nonaffiliated, privately placed equities Largest three investments held in nonaffiliated, privately placed equities: | $ | - | 0.0% |
| 14.03 | | $ | - | 0.0% |
| 14.04 | | $ | - | 0.0% |
| 14.05 | | $ | - | 0.0% |

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?
Yes [X ] No [ ]

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

| | 1 | | 2 | 3 |
|---|---|---|---|---|
| 15.02 | | $ | | 0.0% |
| 15.03 | | $ | | 0.0% |
| 15.04 | | $ | | 0.0% |
| 15.05 | | $ | | 0.0% |

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?
Yes [ ] No [X]

If response to 16.01 is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

| | Type (Residential, Commercial, Agriculature) | | 2 | 3 |
|---|---|---|---|---|
| 16.02 | COMMERCIAL | $ | 110,576,984 | 0.2% |
| 16.03 | COMMERCIAL | $ | 104,363,319 | 0.2% |
| 16.04 | COMMERCIAL | $ | 100,251,899 | 0.2% |
| 16.05 | COMMERCIAL | $ | 99,207,924 | 0.2% |
| 16.06 | COMMERCIAL | $ | 92,140,000 | 0.1% |
| 16.07 | COMMERCIAL | $ | 87,394,035 | 0.1% |
| 16.08 | COMMERCIAL | $ | 78,000,000 | 0.1% |
| 16.09 | COMMERCIAL | $ | 70,000,000 | 0.1% |
| 16.10 | COMMERCIAL | $ | 56,000,000 | 0.1% |
| 16.11 | COMMERCIAL | $ | 51,012,563 | 0.1% |

Amount and percentages of the reporting entity's total admitted assets held in the following categories of mortgage loans:

| | | | Loans | |
|---|---|---|---|---|
| 16.12 | Construction Loans | $ | 93,317,998 | 0.3% |
| 16.13 | Mortgage loans over 90 days past due | $ | - | 0.0% |
| 16.14 | Mortgage loans in the process of foreclosure | $ | - | 0.0% |
| 16.15 | Mortgage loans foreclosed | $ | - | 0.0% |
| 16.16 | Restructured mortgage loans | $ | - | 0.0% |

**17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as**

| | | Residential | | | Commercial | | | Agriculature | |
|---|---|---|---|---|---|---|---|---|---|
| | **Loan-to-Value** | | **1** | **2** | | **3** | **4** | | **5** | **6** |
| **17.01** | **above 95%** | **$** | **-** | **0.0%** | **$** | **18,085,021** | **0.0%** | **$** | **-** | **0.0%** |
| **17.02** | **91% to 95%** | **$** | **-** | **0.0%** | **$** | **21,935,592** | **0.1%** | **$** | **-** | **0.0%** |
| **17.03** | **81% to 90%** | **$** | **-** | **0.0%** | **$** | **40,777,700** | **0.0%** | **$** | **-** | **0.0%** |
| **17.04** | **71% to 80%** | **$** | **-** | **0.0%** | **$** | **56,794,129** | **0.1%** | **$** | **-** | **0.0%** |
| **17.05** | **below 70%** | **$** | **-** | **0.0%** | **$** | **3,333,969,262** | **6.8%** | **$** | **-** | **0.0%** |

**18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:**

**18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?**
**Yes [X] No [ ]**

**If response to 18.01. is yes, responses are not required for the remainder of Interrogatory 18**

**Largest five investments in any one parcel or group of contiguous parcels of real estate.**

| | Description<br>1 | | 2 | 3 |
|---|---|---|---|---|
| **18.02** | | **$** | | **0.0%** |
| **18.03** | | **$** | | **0.0%** |
| **18.04** | | **$** | | **0.0%** |
| **18.05** | | **$** | | **0.0%** |
| **18.06** | | **$** | | **0.0%** |

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans: 0 0.00%

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No [ ]

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

| | 1 | 2 | 3 |
|---|---|---|---|
| 19.02 | Aggregate statement value of investments held in mezzanine real estate loadns: | | |
| | Largest three investments held in mezzanine real $ | $ - | 0.0% |
| 19.03 | | $ - | 0.0% |
| 19.04 | | $ - | 0.0% |
| 19.05 | | $ - | 0.0% |

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

| | | At Year-end | | At End of Each Quarter 1st Qtr | 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% | $ 15,100,000 | $ - | $ - |
| 20.03 | Reverse repurchase agreements | $ - | 0.0% | $ 1,596,000 | $ | $ - |
| 20.04 | Dollar repurchase agreements | $ - | 0.0% | $ 153,892,946 | $ 49,707,262 | $ 105,496,313 |
| 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 | $ 30,499 | 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 1st Qtr | 2nd Qtr | 3rd Qtr |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 22.01 Hedging | $ 17,336,046 | 0.0% | $ 4,337,278 | $ 7,581,090 | $ 3,652,446 |
| 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 1st Quarter | 2nd Quarter | 3rd Quarter |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 23.01 Hedging | $ 20,067,500 | 0.0% | $ 8,962,800 | $ 47,289,150 | $ 46,457,050 |
| 23.02 Income generation | $ - | 0.0% | $ - | $ - | $ - |
| 23.03 Replications | $ - | 0.0% | $ - | $ - | $ - |
| 23.04 Other | $ - | 0.0% | $ - | $ - | $ - |

**THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA**
**As of December 31, 2016**

**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 Lending Reinvested Collateral Amount | Total (Col. 3 + 4) Amount | Percentage |
| 1. Bonds: | | | | | | |
| 1.1 US Treasury Securities | $ 1,597,534,014 | 3.405% | $ 1,597,534,014 | | $ 1,597,534,014 | 3.405% |
| 1.2 US Government agency and corporate obligations (excluding mortgage-backed securities): | | | | | | |
| 1.21 Issued by US Government Agencies | 3,678,572 | 0.008% | 3,678,572 | | 3,678,572 | 0.008% |
| 1.22 Issued by US Government-sponsored agencies | - | 0.00% | - | | - | 0.000% |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | 36,856,331 | 0.079% | 36,856,331 | | 36,856,331 | 0.079% |
| 1.4 Securities issued by states, territories and possessions and political subdivisions in the US: | | | | | | |
| 1.41 States, territories and possessions general obligations | 390,426,205 | 0.832% | 390,426,205 | | 390,426,205 | 0.832% |
| 1.42 Political subdivisions of states, territories and possessions political subdivisions | | 0.00% | | | | |
| general obligations | 229,725,568 | 0.490% | 229,725,568 | | 229,725,568 | 0.490% |
| 1.43 Revenue and assessment obligations | 1,619,718,445 | 3.452% | 1,619,718,445 | | 1,619,718,445 | 3.452% |
| 1.44 Industrial development and similar obligations | 6,089,325 | 0.013% | 6,089,325 | | 6,089,325 | 0.013% |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | | | |
| 1.51 Pass-through securities: | | | | | | |
| 1.511 Issued or guaranteed by GNMA | | 0.00% | | | - | 0.00% |
| 1.512 Issued or guaranteed by FNMA and FHLMC | | 0.00% | | | - | 0.00% |
| 1.513 All other | - | 0.000% | - | | - | 0.000% |
| 1.52 CMOs and REMICs: | | | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA | | 0.000% | | | - | 0.000% |
| 1.522 Issued by non-U.S. Government issuers and collaterized by mortgage- | | | | | - | |
| backed securities issued or guaranteed by agencies shown in Line 1.521 | 16,757,832 | 0.036% | 16,757,832 | | 16,757,832 | 0.036% |
| 1.523 All other | 1,456,799,939 | 3.105% | 1,456,799,939 | | 1,456,799,939 | 3.105% |
| 2. Other debt and other fixed income securities (excluding short term): | | | | | - | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | 23,082,259,525 | 49.193% | 23,082,259,525 | | 23,082,259,525 | 49.197% |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | 7,007,505,012 | 14.935% | 7,007,505,012 | | 7,007,505,012 | 14.936% |
| 2.3 Affiliated securities | 1,043,744,923 | 2.224% | 1,043,744,923 | | 1,043,744,923 | 2.225% |
| 3. Equity interests: | | | | | | |
| 3.1 Investments in mutual funds | 143,257,585 | 0.305% | 143,257,585 | | 143,257,585 | 0.305% |
| 3.2 Preferred stocks: | | | | | | |
| 3.21 Affiliated | - | 0.000% | - | | - | 0.00% |
| 3.22 Unaffiliated | 40,486,681 | 0.086% | 40,486,681 | | 40,486,681 | 0.086% |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | | | |
| 3.31 Affiliated | - | 0.000% | - | | - | 0.000% |
| 3.32 Unaffiliated | 294,659,581 | 0.628% | 294,659,581 | | 294,659,581 | 0.628% |
| 3.4 Other equity securities: | | | | | - | |
| 3.41 Affiliated | - | 0.00% | - | | - | 0.00% |
| 3.42 Unaffiliated | | 0.000% | | | - | 0.000% |
| 3.5 Other equity interests including tangible personal property under lease: | | | | | | |
| 3.51 Affiliated | - | 0.000% | - | | - | 0.000% |
| 3.52 Unaffiliated | - | 0.000% | - | | - | 0.000% |
| 4. Mortgage loans: | | | | | | |
| 4.1 Construction and land development | 93,317,998 | 0.199% | 93,317,998 | | 93,317,998 | 0.199% |
| 4.2 Agricultural | - | 0.000% | - | | - | 0.000% |
| 4.3 Single family residential properties | - | 0.000% | - | | - | 0.00% |
| 4.4 Multifamily residential properties | - | 0.000% | - | | - | 0.000% |
| 4.5 Commercial loans | 3,378,243,690 | 7.200% | 3,378,243,690 | | 3,378,243,690 | 7.200% |
| 4.6 Mezzanine real estate loans | - | 0.00% | - | | - | 0.00% |
| 5. Real Estate Investments: | | | | | | |
| 5.1 Property occupied by company | 2,965,563 | 0.006% | 2,965,563 | | 2,965,563 | 0.006% |
| 5.2 Property held for production of income (includes $0 of property acquired | | | | | - | |
| in satisfaction of debt) | 360,971,455 | 0.769% | 360,971,455 | | 360,971,455 | 0.769% |
| 5.3 Property held for sale ($0 including property acquired in the satisfaction of debt) | 10,263,514 | 0.022% | 10,263,514 | | 10,263,514 | 0.022% |
| 6. Contract loans | 3,405,117,738 | 7.257% | 3,405,117,738 | | 3,405,117,738 | 7.258% |
| 7. Deriatives | 41,050,789 | 0.087% | 41,050,789 | | 41,050,789 | 0.087% |
| 8. Receivables for securities | 26,819,916 | 0.057% | 26,819,916 | | 26,819,916 | 0.057% |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | - | 0.000% | - | | - | |
| 10. Cash and short-term investments | 821,842,798 | 1.752% | 821,842,798 | | 821,842,798 | 1.752% |
| 11. Other invested assets | 1,811,428,489 | 3.861% | 1,808,240,510 | | 1,808,240,510 | 3.854% |
| **12. Total Invested Assets** | $ 46,921,521,488 | 100.00% | $ 46,918,333,509 | | $ 46,918,333,509 | 100.00% |

* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual

# The Guardian Life Insurance Company of America

**Audited Statutory Basis**
**Financial Statements and Supplemental Schedules**
**December 31, 2017 and 2016**

## The Guardian Life Insurance Company of America

**Audited Statutory Basis Financial Statements**

**December 31, 2017 and 2016**

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## Report of Independent Auditors

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

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

### *Opinion on Statutory Basis of Accounting*

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

### *Other Matter*

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplemental Schedule 1 – Selected Financial Data, Investment Risk Interrogatories, and Summary Investment Schedule (collectively, the "supplemental schedules") of the Company as of December 31, 2017 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.

PricewaterhouseCoopers LLP

February 27, 2018

# The Guardian Life Insurance Company of America

## Statutory Basis Balance Sheets

## (In Millions)

| | As of December 31, 2017 | As of December 31, 2016 |
|---|---|---|
| **Admitted Assets** | | |
| Bonds | $ 38,125 | $ 35,243 |
| Common and preferred stocks | 1,531 | 1,522 |
| Mortgage loans | 4,001 | 3,472 |
| Real estate | 345 | 374 |
| Policy loans | 3,520 | 3,405 |
| Other invested assets | 2,299 | 2,054 |
| Receivable for securities | 80 | 27 |
| Cash, cash equivalents and short-term investments | 554 | 822 |
| **Total invested assets** | 50,455 | 46,919 |
| Due and accrued investment income | 430 | 384 |
| Premiums deferred and uncollected | 1,091 | 1,058 |
| Current federal and foreign income tax recoverable and interest thereon | 127 | 106 |
| Net deferred tax asset | 587 | 727 |
| Reinsurance recoverable from affiliate | 2,641 | 2,472 |
| Other assets | 238 | 218 |
| **Total admitted assets** | $ 55,569 | $ 51,884 |
| **Liabilities** | | |
| Reserves for policy benefits | $ 41,778 | $ 39,369 |
| Policyholder dividends payable and other contract liabilities | 3,550 | 3,107 |
| Interest maintenance reserve | 531 | 464 |
| Asset valuation reserve | 829 | 810 |
| Other liabilities | 2,197 | 1,962 |
| **Total liabilities** | 48,885 | 45,712 |
| Policyholders' surplus | 5,487 | 5,327 |
| Surplus notes | 1,197 | 845 |
| **Total liabilities and policyholders' surplus** | $ 55,569 | $ 51,884 |

See notes to statutory basis financial statements.

# The Guardian Life Insurance Company of America

## Statutory Basis Statements of Operations

## (In Millions)

| | For the Years Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| **Revenues** | | |
| Premiums, annuity considerations and fund deposits | $ 8,112 | $ 7,768 |
| Net investment income | 2,106 | 2,052 |
| Other income | 441 | 421 |
| **Total revenues** | 10,659 | 10,241 |
| **Benefits and Expenses** | | |
| Benefit payments to policyholders and beneficiaries | 4,449 | 4,293 |
| Net increase to policy benefit reserves | 2,409 | 2,330 |
| Commissions and operating expenses | 2,383 | 2,262 |
| **Total benefits and expenses** | 9,241 | 8,885 |
| Gain from operations before policyholder dividends and taxes | 1,418 | 1,356 |
| Policyholder dividends | (903) | (839) |
| Gain from operations before taxes and realized capital losses | 515 | 517 |
| Income tax expense | (65) | (141) |
| Income from operations before net realized capital losses | 450 | 376 |
| Net realized capital losses | (27) | (8) |
| **Net income** | $ 423 | $ 368 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| **Beginning of year balance** | $ 6,172 | $ 6,090 |
| **Adjustments to surplus:** | | |
| Net income | 423 | 368 |
| Change in net unrealized capital gains (losses), net of tax | 26 | (111) |
| Change in reserve on account of change in valuation basis | - | (8) |
| Change in asset valuation reserve | (19) | (11) |
| Change in surplus note | 352 | - |
| Change in net deferred taxes | (391) | 92 |
| Change in non-admitted assets | 233 | (84) |
| Change in pension funded status | (110) | (159) |
| Other changes, net | (2) | (5) |
| Net adjustments to unassigned surplus | 512 | 82 |
| **End of year balance** | $ 6,684 | $ 6,172 |

See notes to statutory basis financial statements.

# The Guardian Life Insurance Company of America

## Statutory Basis Statements of Cash Flows

## (In Millions)

| | For the Years Ended December 31, 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Premiums and other income received | $ 8,097 | $ 7,756 |
| Investment income | 2,110 | 2,110 |
| Other income | 130 | 196 |
| Benefits and loss related payments | (4,582) | (4,308) |
| Commissions, expenses and taxes paid | (2,431) | (2,290) |
| Dividends paid | (847) | (822) |
| Other, net | (12) | 22 |
| Net cash provided by operating activities | 2,465 | 2,664 |
| **Cash flows from investing activities:** | | |
| Proceeds from investments sold or matured: | | |
| Bonds | 14,248 | 15,042 |
| Common and preferred stocks | 363 | 538 |
| Mortgage loans | 495 | 574 |
| Real estate | 107 | 81 |
| Other investments | 398 | 457 |
| Proceeds from investments sold or matured | 15,611 | 16,692 |
| Cost of investments acquired: | | |
| Bonds | 16,841 | 18,451 |
| Common and preferred stocks | 316 | 464 |
| Mortgage loans | 1,033 | 664 |
| Real estate | 85 | 16 |
| Other investments | 751 | 517 |
| Cost of investments acquired | 19,026 | 20,112 |
| Net increase in policy loans, net of repayments | 115 | 68 |
| Net cash used in investing activities | (3,530) | (3,488) |
| **Cash from financing and miscellaneous activities:** | | |
| Cash provided: | | |
| Surplus note | 352 | - |
| Net deposits on deposit-type contracts and other insurance liabilities | 445 | 868 |
| Net cash provided by financing and miscellaneous activities | 797 | 868 |
| **Net (decrease) increase in cash, cash equivalents and short-term invesments** | (268) | 44 |
| **Cash , cash equivalents and short-term investments, beginning of year** | 822 | 778 |
| **Cash, cash equivalents and short-term investments, end of year** | $ 554 | $ 822 |

See notes to statutory basis financial statements.

### NOTE 1 – ORGANIZATION

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A reconciliation of the Company's Net Income and Surplus at December 31, 2017 and 2016 between NAIC SAP and practices prescribed by the State of New York is shown below:

| | 2017 | 2016 |
|---|---|---|
| Statutory Net Income, New York basis | $ 423 | $ 368 |
| State Prescribed Practices: | | |
| Deferred premiums asset impact (1) | 7 | 7 |
| Admission of unearned reinsurance premium asset (2) | (5) | (5) |
| Statutory Net Income, NAIC SAP basis | $ 425 | $ 370 |

| | 2017 | 2016 |
|---|---|---|
| Statutory Surplus, New York basis | $ 6,684 | $ 6,172 |
| State Prescribed Practices: | | |
| Deferred premiums asset impact (1) | 143 | 133 |
| Admission of unearned reinsurance premium asset (2) | (62) | (55) |
| Statutory Surplus, NAIC SAP basis | $ 6,765 | $ 6,250 |

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

**Admitted Assets:**
Assets are stated at "admitted asset" values, which are values required by or permitted to be reported to the Department in accordance with its rules and regulations. Certain assets designated as "non-admitted assets" (approximately $156 million and $389 million at December 31, 2017 and December 31, 2016, respectively), consisting principally of deferred tax assets, leasehold improvements, electronic data processing equipment and computer software, and prepaid pension costs are charged directly to unassigned surplus.

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

**Assessments:**
Under state insurance guaranty fund laws, insurers doing business in a state can be assessed, up to prescribed limits, for certain obligations of insolvent insurance companies to policyholders and claimants. Amounts assessed to each company are typically related to its proportion of business written in each state. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction. In certain states there must also be a final order of liquidation. As of December 31, 2017 and December 31, 2016, the liability balance included in other liabilities was \$9 million and \$28 million, respectively for assessments. Some states permit member insurers to recover assessments through full or partial premium tax offsets. The related premium tax offsets included in other assets were \$21 million and \$17 million as of December 31, 2017 and December 31, 2016, respectively.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On March 1, 2017, the Commonwealth Court of Pennsylvania entered into an order of liquidation for Penn Treaty Network America Insurance Company, and its subsidiary American Network Insurance Company ("Penn Treaty"), providers of long-term care insurance. As a result of the liquidation, the Company used the most current cost estimate provided by the National Organization of Life and Health Guaranty Associations (NOLHGA) to determine the estimated fund assessments and premium tax offsets. As of December 31, 2017, the Company recognized a discounted assessment liability of $8 million (undiscounted of $8 million) offset by a discounted premium tax offset of $16 million (undiscounted of $19 million) using a discount rate of 3.5%. The assessment is included in other liabilities of $9 million and in other assets of $21 million stated above. The Company expects a majority of the assessments to be paid over the next 2 years and a majority of the premium tax offset to be realized over the next 7 years.

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

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

**Reclassifications:**

Certain amounts in prior year's presentation have been reclassified to conform to the current presentation. The reclassification had no effect on previously reported net income or surplus. The investment in surplus notes totaling $204 million have been reclassified from the Bonds to Other Invested Assets on Statutory Basis Balance Sheet for December 31, 2016.

### NOTE 3 – INVESTMENTS

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

The Company's investment portfolio includes securities with a 5* NAIC designation. There were two securities that have a 5* NAIC designation with an aggregated book adjusted carrying value and aggregate fair value of $10 million as of December 31, 2017. There were two securities that have a 5* NAIC designation with a book adjusted carrying value and fair value of $14 million as of December 31, 2016.

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

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

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

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

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

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

**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.

### NOTE 3 – INVESTMENTS (CONTINUED)

The amortized cost basis and estimated fair value of bonds and the cost basis and estimated fair value of preferred stock and common stocks at December 31, 2017 and December 31, 2016 is as follows:

| | Amortized Cost/ Cost* | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| | | (In millions) | | |
| **December 31, 2017** | | | | |
| U.S. Government | $ 2,475 | $ 46 | $ (8) | $ 2,513 |
| All other Government | 65 | - | - | 65 |
| States, Territories, and Possessions | 336 | 52 | - | 388 |
| U.S. Political Subdivisions | 262 | 30 | - | 292 |
| U.S. Special Revenue | 2,517 | 231 | (9) | 2,739 |
| Industrial and Miscellaneous | 32,455 | 1,874 | (140) | 34,189 |
| Hybrid | 5 | 1 | - | 6 |
| Affiliated Bonds | 10 | - | - | 10 |
| 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 |

| | Amortized Cost/ Cost* | Gross Unrealized Gains | Gross Unrealized (Losses) | Estimated Fair Value |
|---|---|---|---|---|
| | | (In millions) | | |
| **December 31, 2016** | | | | |
| U.S. Government | $ 1,602 | $ 5 | $ (31) | $ 1,576 |
| All other Government | 37 | - | - | 37 |
| States, Territories and Possessions | 390 | 47 | (5) | 432 |
| U.S. Political Subdivisions | 230 | 22 | - | 252 |
| U.S. Special revenue | 2,274 | 179 | (19) | 2,434 |
| Industrial and Miscellaneous | 30,662 | 1,313 | (460) | 31,515 |
| Hybrid | 48 | 2 | (1) | 49 |
| Total Bonds | $ 35,243 | $ 1,568 | $ (516) | $ 36,296 |
| Common stocks - unaffiliated | $ 445 | 34 | (41) | $ 438 |
| Investment in subsidiaries | 1,346 | 39 | (341) | 1,044 |
| Total Common Stocks | 1,791 | 73 | (382) | 1,482 |
| Preferred Stocks - Perpetual | $ 40 | 10 | - | 50 |
| Total Preferred Stocks | 40 | $ 10 | $ - | 50 |
| Total Common and Preferred Stocks | $ 1,831 | $ 83 | $ (382) | $ 1,532 |

* Includes unrealized FX adjustments

### NOTE 3 – INVESTMENTS (CONTINUED)

The Company invests in high quality securities that are diversified by asset class, issuer and industry. At December 31, 2017 approximately 6.5% of the portfolio is invested in securities issued or backed by the United States Government or its agencies. No other single issuer accounts for more than 1.5% of the portfolio at December 31, 2017.

The amortized cost and estimated fair value of debt securities at December 31, 2017 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

| | 2017 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| | (In millions) | |
| Due in one year or less | $ 461 | $ 468 |
| Due after one year through five years | 9,499 | 9,692 |
| Due after five years through ten years | 9,572 | 9,937 |
| Due after ten years | 12,846 | 14,072 |
| Sinking fund bonds, mortgage backed securities and asset backed securities | 5,747 | 6,033 |
| Total | $ 38,125 | $ 40,202 |

The net change in unrealized capital gains (losses) included in surplus for year ended December 31, 2017 and 2016 is summarized as follows:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Changes in net unrealized capital gains (losses) attributable to: | | |
| Bonds (NAIC 6 rated) | $ 4 | $ (4) |
| Preferred Stocks (NAIC 4, 5 and 6 rated) | - | 6 |
| Common stocks unaffiliated | 31 | 21 |
| Common stocks affiliated | (21) | (54) |
| Foreign currency translation | 59 | (28) |
| Other | (47) | (72) |
| Total change in net unrealized capital gains (losses) | 26 | (131) |
| Tax (expense) benefit | - | 20 |
| Total change in net unrealized gains (losses), net of tax | $ 26 | $ (111) |

Proceeds from sales, maturities and paydowns of investments in bonds amounted to $14,208 million and $15,522 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of $413 million and $602 million and gross losses of $147 million and $202 million were realized on sales of bonds for the years ended December 31, 2017 and 2016, respectively. These amounts are pre-tax and pre-IMR.

Proceeds from sales, maturities and paydowns of investments in preferred stock amounted to $69 million and $153 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of $28 million and $4 million and gross losses of $0 million and $15 million were realized on sales of preferred stock for the years ended December 31, 2017 and 2016, respectively. These amounts are pre-tax.

### NOTE 3 – INVESTMENTS (CONTINUED)

Proceeds from sales, maturities and paydowns of investments in common stock amounted to $294 million and $560 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of $22 million and $19 million and gross losses of $6 million and $13 million were realized on sales of common stock for the years ended December 31, 2017 and 2016, respectively. These amounts are pre-tax.

During 2017 and 2016, there were no restructured loans.

During 2017 and 2016, the Company had non-cash transactions related to the exchange or conversion of bonds that it held as investments in the amount of $2,236 million and $806 million.

During 2017 and 2016, the Company had non-cash transactions related to the exchange or merger activity related to common stock that it held as investments in the amount of $444 million and $2 million.

During 2017 and 2016, the Company had no non-cash transactions related to the exchange or conversion of preferred stock that it held as investments.

**Unrealized Losses:**
The Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and December 31, 2016 are shown below:

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

**NOTE 3 – INVESTMENTS (CONTINUED)**

| December 31, 2016 (In millions) | Less than 12 Months Fair Value | Less than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| U.S. Government | $ 1,126 | $ (31) | $ 4 | $ - | $ 1,130 | $ (31) |
| All other Government | 17 | - | - | - | 17 | - |
| States, Territories and Possessions | 122 | (5) | 4 | - | 126 | (5) |
| U.S. Political Subdivisions | 35 | - | - | - | 35 | - |
| U.S. Special Revenue | 678 | (18) | 8 | (1) | 686 | (19) |
| Industrial and Miscellaneous | 10,177 | (380) | 985 | (80) | 11,162 | (460) |
| Hybrid | 1 | - | 21 | (1) | 22 | (1) |
| Total Bonds | $ 12,156 | $ (434) | $ 1,022 | $ (82) | $ 13,178 | $ (516) |
| Common stocks - unaffiliated | 150 | (19) | 62 | (22) | 212 | (41) |
| Total temporarily impaired securities | $ 12,306 | $ (453) | $ 1,084 | $ (104) | $ 13,390 | $ (557) |

The Company's investment portfolio includes individual securities that are in an unrealized loss position and have not been recognized as other-than-temporary impairments. There were four hundred and sixty-four securities in an unrealized loss position for greater than 12 months with a book value of $3,426 million and a fair value of $3,300 as of December 31, 2017. There were six hundred and seventy two securities in an unrealized loss position for greater than 12 months with a book value of $1,188 million and a fair value of $1,084 million as of December 31, 2016.

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

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Mortgage Loans:**
Mortgage loans are valued at amortized cost. Valuation reserves are established for potential declines in the value of the mortgage loans. As of December 31, 2017 and December 31, 2016 there were no valuation reserves established for any of the Company's mortgage loans. Other-than-temporary impairments on loans are charged to net realized capital losses and are not adjusted for subsequent recoveries in value. There were no other-than-temporary impairments on mortgage loans for the years ended December 31, 2017 and 2016, respectively.

The Company's $4,001 million and $3,472 million of investments in mortgage loans on real estate on December 31, 2017 and December 31, 2016 consist of loans on commercial real estate properties. Of these amounts $1,682 million and $1,356 million were mortgage loans in which the Company was a participant at December 31, 2017 and December 31, 2016. The Company had $0 million and $30 million in co-lender loan exposure as of December 31, 2017 and December 31, 2016. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas ($1,209 million or 30.24% and $351 million or 8.76%) at December 31, 2017. The largest concentrations of commercial real estate mortgage loans are for properties located in California and Texas ($1,183 million or 34.07% and $224 million or 6.45%) at December 31, 2016. The Company estimates the fair value of mortgage loans on real estate to be $4,085 million and $3,549 million at December 31, 2017 and December 31, 2016, respectively. Fair value was determined based upon the present value of the scheduled future cash flows of each loan based on the average term to maturity discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for a similar quality mortgage. The minimum and maximum range of lending rates on new mortgage loans were between 3.20% and 4.32% originated during 2017. The maximum percentage of any single mortgage loan to the value of the security originated in 2017 was 69.92% at origination date.

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

Interest received on impaired loans that were previously modified in a troubled debt restructuring is either applied against the principal or reported as revenue according to management's judgment as to the collectability of principal. There were no mortgages with interest more than 180 days past due at December 31, 2017 or December 31, 2016, respectively.

### NOTE 3 – INVESTMENTS (CONTINUED)

The following table set forth the credit quality indicators as of December 31, 2017 and December 31, 2016, based upon the recorded investment gross of allowance for credit losses.

**Mortgage Loans**

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

**Mortgage Loans**

| | Debt Service Coverage Ratio - December 31, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Greater than 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 | Grand Total |
| **Loan-to-Value Ratio** | | | | | | | |
| 0% - 49.99% | $ 670 | $ 215 | $ 131 | $ 57 | $ 37 | $ 2 | $ 1,112 |
| 50% - 59.99% | 559 | 138 | 238 | 64 | 3 | - | 1,002 |
| 60% - 69.99% | 471 | 18 | 218 | 245 | 55 | 5 | 1,012 |
| 70% - 79.99% | 73 | 37 | 16 | 72 | 93 | 8 | 299 |
| 80% - 89.99% | - | 22 | 7 | - | - | - | 29 |
| 90% - 100% | 18 | - | - | - | - | - | 18 |
| Greater than 100% | - | - | - | - | - | - | - |
| **Total** | **$ 1,791** | **$ 430** | **$ 610** | **$ 438** | **$ 188** | **$ 15** | **$ 3,472** |

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Real Estate:**

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

Real estate was comprised of the following for the years ended December 31, 2017 and December 31, 2016:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| | | (In millions) | | |
| Investment real estate | $ | 341 | $ | 361 |
| Properties held for sale - Company Occupied | | - | | 10 |
| Properties occupied by the Company | | 4 | | 3 |
| Total real estate | $ | 345 | $ | 374 |

The Company had accumulated depreciation totaling $102 million and $121 million at December 31, 2017 and December 31, 2016, respectively. The Company recorded depreciation expense of $19 million for 2017 and $19 million for 2016. There were two properties with carrying value of $22 million, above their combined fair value of $20 million at December 31, 2017. There were four properties with carrying value of $24 million, above their combined fair value of $20 million at December 31, 2016. There was one other-than-temporary impairment of $4 million taken on real estate in 2017. There were no other-than-temporary impairment in 2016. The fair values were determined by a third party and internal appraisals. As of December 31, 2016 the Company had four home office properties held for sale with carrying value of $10 million. These properties were sold in 2017 resulting in a gain of $2 million.

**Restricted Assets and Special Deposits:**

The Company had admitted restricted assets of $12 million and $23 million at December 31, 2017 and 2016, respectively. Of these amounts, there were deposits with states as required by certain insurance laws of $4 million in 2017 and $4 million 2016 and pledged as collateral for futures trading of $8 million and $20 million in 2017 and 2016, respectively. These amounts are included in Bonds in the Statutory Basis Balance Sheets. Total admitted restricted assets were 0.02% and 0.05% of the Company's total admitted assets at December 31, 2017 and 2016, respectively. There were no non-admitted restricted assets in 2017 or 2016.

**Investment in Subsidiaries:**

Investment in affiliated limited liability subsidiaries are included in Other invested assets while investment in all other subsidiaries are included in Common stocks on the Statutory Basis Balance Sheets and totaled $1,819 million and $1,754 million at December 31, 2017 and December 31, 2016, respectively.

**NOTE 3 – INVESTMENTS (CONTINUED)**

The Company's major subsidiaries are as follows:

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

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

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

First Commonwealth, Inc. ("FCW") provides dental care coverage and/or arranges for dental care services to be provided to its subscribers primarily on a prepaid basis. It also provides Indemnity/Preferred Provider Organization ("PPO") dental coverage, and administrative claim services. Through its subsidiary, Premier, FCW also operates as a dental health care service plan under the California Geographic Managed Care Program ("GMC") and the Los Angeles Prepaid Health Plan ("LAPHP"), which are administered by the California Department of Health Services and were created by the State legislature to ensure access, quality of care, and cost-effectiveness for beneficiaries of the Medi-Cal Program. On January 29, 2016, FCW acquired 100% interest in Avesis Incorporated at a purchase price of $262 million. The total assets acquired were $317 million which includes $268 million in goodwill and intangible assets and total liabilities acquired were $55 million.

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

- During 2016, GIS received $234 million of real estate operating entities and joint ventures from the Company. GIS also received a contribution of $130 million from the Company which represents the common stock of Reed Group, Ltd., a Colorado corporation that provides absence management services.

- On August 24, 2016, GIS acquired 100% interest in STX Healthcare Management Service, Inc., a dental service organization, at a purchase price of $79 million in cash. The total assets acquired were $94 million which includes $80 million in goodwill and intangible assets and total liabilities acquired were $15 million.

- On December 17, 2015, GIS entered into a definitive agreement to sell its majority interest (as of December 31, 2015, GIS owns a 94.0% interest in RS) in RS to Victory Capital. The transaction closed on July 29, 2016.

### NOTE 3 – INVESTMENTS (CONTINUED)

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

| | | 2017 | | 2016 |
|---|---|---|---|---|
| | | (In millions) | | |
| **GIAC (Statutory basis)** | | | | |
| Total assets | $ | 17,360 | $ | 16,783 |
| Total liabilities | | 17,050 | | 16,523 |
| Net income (loss) | $ | 26 | $ | (140) |
| **BLICOA (Statutory basis)** | | | | |
| Total assets | $ | 3,718 | $ | 3,527 |
| Total liabilities | | 3,529 | | 3,325 |
| Net income | $ | 11 | $ | 18 |
| **PALIC (Statutory basis)** | | | | |
| Total assets | $ | 236 | $ | 268 |
| Total liabilities | | 195 | | 204 |
| Net income | $ | 5 | $ | 6 |
| **FCW (GAAP basis)** | | | | |
| Total assets | $ | 586 | $ | 701 |
| Total liabilities | | 112 | | 161 |
| Net income | $ | 27 | $ | 25 |
| **GIS (GAAP basis)** | | | | |
| Total assets | $ | 1,962 | $ | 1,432 |
| Total liabilities | | 1,129 | | 712 |
| Net income (loss) | $ | 2 | $ | (3) |

### NOTE 3 – INVESTMENTS (CONTINUED)

**Investment in Subsidiaries**

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

December 31, 2017

| Description of SCA Investment (Per SSAP No 97) | % of SCA Ownership | Gross Amount | Non-admitted Amount | Admitted Asset Amount | Date of Filing to NAIC | Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing) | NAIC Response Received (yes/no) | NAIC Valuation (Amount) | NAIC Disallowed Entity's Valuation Method, Resubmission Required (yes/no) | Code |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (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 Acqusition I, LLC | 100% | 24 | 24 | - | | n/a | n/a | - | n/a | I |
| **Aggregate Total** | | $ 1,301 | $ 30 | $ 1,271 | | | | $ 513 | | |

December 31, 2016

| Description of SCA Investment (Per SSAP No 97) | % of SCA Ownership | Gross Amount | Non-admitted Amount | Admitted Asset Amount | Date of Filing to NAIC | Type of NAIC Filing (Sub-1, Sub-2, or Resubmission of Disallowed Filing) | NAIC Response Received (yes/no) | NAIC Valuation (Amount) | NAIC Disallowed Entity's Valuation Method, Resubmission Required (yes/no) | Code |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (In millions) | | | | | | |
| Managed Dental Care of California | 100% | $ 5 | $ - | $ 5 | 6/30/2016 | Sub-2 | Y | $ 6 | no | I |
| First Commonwealth | 100% | 508 | - | 508 | 12/30/2016 | Sub-2 | Y | 420 | no | I |
| Innovative Underwriters | 100% | 6 | 6 | - | - | Sub-2 | n/a | - | n/a | I |
| Guardian Investors Services, LLC | 100% | 710 | - | 710 | - | n/a | n/a | - | n/a | I |
| **Aggregate Total** | | $ 1,229 | $ 6 | $ 1,223 | | | | $ 426 | | |

### NOTE 3 – INVESTMENTS (CONTINUED)

### NET INVESTMENT INCOME

Net investment income, including accrual of discounts and amortization of premiums, arose from the following sources for the years ended December 31, 2017 and December 31, 2016:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Bonds | $ 1,611 | $ 1,545 |
| Preferred stocks | - | 7 |
| Unaffiliated common stocks | 24 | 9 |
| Affiliated common stocks | 47 | 12 |
| Mortgage loans | 166 | 169 |
| Real estate | 69 | 73 |
| Policy loans | 253 | 247 |
| Cash and short-term investments | 6 | 4 |
| Other (mainly private equities) | 155 | 181 |
| Gross investment income | 2,331 | 2,247 |
| Less investment expenses | (225) | (195) |
| Net investment income | $ 2,106 | $ 2,052 |

### NET REALIZED CAPITAL (LOSSES) GAINS

Net realized capital losses were derived from the following sources for the years ended December 31, 2017 and December 31, 2016:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Bonds | $ 255 | $ 401 |
| Preferred stocks | 28 | (11) |
| Common stocks (unaffiliated & affiliated) | 15 | 5 |
| Mortgage loans | (7) | (2) |
| Real estate | 12 | 29 |
| Other invested assets | 5 | (8) |
| Derivatives and hedging losses gains | (18) | (46) |
| Other realized losses | 1 | - |
| Total net realized capital gains | 291 | 368 |
| Capital gains tax expense | (152) | (164) |
| Transfer to IMR (net of tax) | (166) | (212) |
| Net realized capital losses | $ (27) | $ (8) |

Included in Other Invested Assets is $15.5 million net losses related to the transfer of twenty real estate joint venture LLC's to GIS in 2016.

The net realized capital loss figure above includes other-than-temporary impairment losses of $54 million and $46 million for the years ended December 31, 2017 and December 31, 2016, respectively. The $54 million related to $37 million in private equities, $11 million in bonds, $4 million in real estate, and $2 million in real estate funds. The $46 million related to private equities.

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Derivative Financial Instruments:**

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

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

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

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

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

**Hedging – Designated As Hedging Instruments**

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

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

*Equity index futures* are used to mitigate the change in value of the liability the Company has to participants in its deferred compensation plans that allocate their plan account balances to equity funds offered under the plan. Equity index futures obligate the Company to pay or to receive an amount based on a specified equity market index as of a future date applied to the notional amount of the contract. The change in the fair value of the futures contracts are recorded as income or expense which offsets the impact on gain from operation of the change in value of its deferred compensation liability. If the hedge is deemed to be ineffective for any period of time, the change in the fair value of the futures contracts for that time period is recorded in surplus as an unrealized gain or loss.

**NOTE 3 – INVESTMENTS (CONTINUED)**

*Treasury futures* are used to mitigate the portion of the change in fair value related to a change in interest rates on specifically identified assets acquired by the Company and held in its general account to support the Funding Agreements ("FA") and the specifically identified portion of a liability incurred by the Company pertaining to FA that are issued by the Company to back Medium Term Notes ("MTN") issued by a special purpose entity.

The Company enters into short positions (sells) treasury futures contracts prior to the issuance of the FA-MTN in order to lock-in the interest rate component of the return of the designated assets at their date of acquisition. When the FA-MTN is issued the Company enters into long position (purchases) treasury futures contracts in order to mitigate the change in the fair value of the designated net liability due to the effects of interest rate changes. The change in the fair value of the futures contracts are recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in value of its FA liability.

Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

*S&P equity options* are used by the Company as a risk management strategy to reduce the projected dividend liability exposure on its Index Participation Feature ("IPF") which is a rider on certain whole life contracts. The Company uses a combination of short positions (sell) and long positions (purchases) of over-the-counter European call options on the S&P 500 index with expiration of one year to mitigate the dividend liability exposure based on the future return on S&P 500 index for the annual period of the monthly segment being hedged between the guaranteed floor rate and the cap rate on the participating balances. The change in the fair value of the options contracts are recorded in current period earnings as income or expense which offsets the operating gain or loss incurred by the Company on the change in the amount of the dividend liability.

**Hedging – Not Designated As Hedging Instruments**

The Company enters into other derivative transactions that mitigate economic risks but are not designated as a hedge for accounting purposes or do not qualify for hedge accounting treatment. These derivative instruments are reported at fair value on the balance sheet as either other invested assets or other liabilities. Changes in the fair value of these instruments are reported as a change in unrealized capital gains or losses until the maturity or termination of the contract, at which time a realized capital gain or loss is recorded.

*Treasury futures* are used to mitigate the key rate duration mismatch between the designated segment of the general account asset portfolio and the custom composite benchmarks for that segment designed to incorporate certain interest rate characteristics of the liabilities that those assets support. Treasury futures obligate the Company to take or receive delivery of certain Treasury Bonds at a specified price at a future date.

*Foreign currency futures* are used to mitigate the foreign exchange risk of investments in foreign denominated bonds securities. Foreign currency futures are exchange traded and settled daily. Foreign currency futures obligate the Company to exchange a specified amount of foreign currency at a specified rate on a future date.

*Equity index futures* are used to mitigate market fluctuations of the Company's portfolio of unaffiliated common stock and other mark to market assets and to minimize the volatility associated with certain liabilities. Equity index futures obligate the Company to pay or receive from a counterparty a cash amount based on a specified equity market index at a predefine price as of a future date applied to the notional amount of the contracts.

**NOTE 3 – INVESTMENTS (CONTINUED)**

*Foreign currency forwards* are used to mitigate the foreign exchange risk for investments in foreign denominated bonds or foreign denominated equity investments. Foreign currency forwards obligate the Company and the counterparty to exchange U.S. dollars and another currency at a specified future date and at a specified price.

*Credit default swaps index* ("CDX") are used to reduce the credit risk exposure on a specified portfolio of corporate bonds. The Company purchases CDX contracts in which it receives payments if there is a credit event on one or more of the specified securities contained in the index. These payments would be used to offset any credit losses recorded on portfolio of bonds being hedged.

The Company also entered into short positions (sells) treasury futures contracts in order to lock in the interest rate as of the date the hedge was entered into for a surplus note that was issued in January 2017.

**Replications**

The Company purchased treasury futures as part of a replication transaction used to manage interest rate exposure. Statutory accounting guidance requires a cash instrument (high quality bond) with the same par value as the notional amount of the derivative and at least the same duration as the treasury futures to be held by the Company in order to cover the change in value of the treasury futures. The combining of the treasury futures and the cash instrument creates the replication (synthetic bond). If the replicated asset and cash instrument are carried at amortized cost so is the derivative. Otherwise, the derivative is carried at fair value.

### NOTE 3 – INVESTMENTS (CONTINUED)

The effects of the Company's use of derivative instruments on the Balance Sheets and Statements of Operations:

| December 31, 2017 | Notional Amount | Statement Value Assets | Statement Value Liabilities | Change in Unrealized Capital Gains (Losses) | Net Realized Capital Gains (Losses) | Net Investment Income | Gain/(loss) from Operations |
|---|---|---|---|---|---|---|---|
| | | | | (in millions) | | | |
| Derivatives designated as hedging instruments: | | | | | | | |
| Foreign currency swaps | $ 816 | $ 13 | $ - | $ (63) | $ - | $ - | $ - |
| Equity index futures | 213 | - | - | - | - | - | 36 |
| Treasury futures | 88 | - | - | - | (15) | - | - |
| S&P equity options | 5 | - | - | - | - | - | - |
| Derivatives not designated as hedging instruments: | | | | | | | |
| Treasury futures | 45 | - | - | 1 | (1) | - | - |
| Equity index futures | 1 | - | - | - | - | - | - |
| Credit default swap index | - | - | - | - | (1) | - | - |
| Total derivatives | $ 1,168 | $ 13 | $ - | $ (62) | $ (17) | $ - | $ 36 |

| December 31, 2016 | Notional Amount | Statement Value Assets | Statement Value Liabilities | Change in Unrealized Capital Gains (Losses) | Net Realized Capital Gains (Losses) | Net Investment Income | Gain/(loss) from Operations |
|---|---|---|---|---|---|---|---|
| | | | | (in millions) | | | |
| Derivatives designated as hedging instruments: | | | | | | | |
| Foreign currency swaps | $ 422 | $ 34 | $ - | $ 24 | $ - | $ - | $ - |
| Equity index futures | - | - | - | - | - | - | 20 |
| Treasury futures | - | - | - | - | - | - | - |
| S&P equity options | 1 | - | - | - | - | - | - |
| Derivatives not designated as hedging instruments: | | | | | | | |
| Treasury futures | - | - | - | (1) | (41) | - | - |
| Foreign currency futures | - | - | - | - | - | - | - |
| Equity index futures | 3 | - | - | - | - | - | - |
| Foreign currency forwards | - | - | - | - | - | - | - |
| Credit default swap index | 950 | - | 15 | - | (4) | - | - |
| Total derivatives | $ 1,376 | $ 34 | $ 15 | $ 23 | $ (45) | $ - | $ 20 |

**Repurchase Agreements:**

The Company periodically enters into repurchase agreements whereby securities will be resold at a specified date and price. There were no repurchase agreements as of December 31, 2017 and December 31, 2016, respectively.

**NOTE 3 – INVESTMENTS (CONTINUED)**

**Reverse Repurchase Agreements:**
The Company periodically enters into reverse repurchase arrangements whereby certain securities are loaned, primarily with major brokerage firms. The Company's policy requires a minimum of 95% of the fair value of the loaned securities as collateral, calculated on a daily basis, in the form of either cash or securities. Collateral assets received and related liabilities due counterparties are included in the Statutory Basis Balance Sheets as "Other Liabilities". There were no open reverse repurchase agreements on December 31, 2017 or December 31, 2016.

**Securities Lending**
There were no securities on loan at December 31, 2017 or December 31, 2016.

**NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Statutory guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions based on internally developed data in the absence of observable market information. The guidance requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when determining the fair value of an asset or liability. The statement classifies all assets and liabilities carried or disclosed at fair value in one of the following three categories:

Level 1 – inputs are quoted market prices available in active markets for identical assets or liabilities on the reporting date. Assets included in this category include fixed maturity instruments.

Level 2 – inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable. These types of instruments include fixed maturity instruments (impaired bonds), unaffiliated common stock, and derivative instruments that are not actively traded.

Level 3 – inputs are unobservable where there is little or no market activity for the asset or liability and the Company makes estimates and assumptions based on internally derived information. Instruments held in this category include fixed maturity instruments (impaired bonds).

The estimated fair values presented below have been determined using available information and valuation methodologies. The estimated fair value for financial instruments held by the Company was determined by management after considering the following sources of information: published market quotes for active exchange traded instruments, third party pricing vendors, quotes from investment banks that are lead market makers in certain markets, independent broker quotations, or the use of internal valuation models that use market observable inputs when available and Company derived inputs when external inputs are not available or deemed to be inaccurate. Considerable judgment is applied in interpreting data to develop the estimates of fair value. Accordingly, such amounts are management's estimate of the value that would be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies from period to period based on available information and market conditions could have a material effect on the estimated fair values.

### NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

**Bonds, preferred and common stocks:**
Estimated fair values for bonds, other than private placement securities, preferred stock and common stock are valued based on quoted prices from active markets when available (Level 1).

When the Company cannot obtain a quoted market price directly it relies on values provided by a third party pricing vendor. This is the pricing source for the majority of the Company's marketable securities. Prices received from a third party vendor are generally considered to be Level 2.

Pricing vendors utilize pricing models developed for individual asset classes which incorporate available market data. These market inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data which include market research publications. The pricing vendor may obtain broker quotes for securities when sufficient information is not available to fully evaluate a security. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants.

Portfolio managers review the values assigned by the pricing vendor for reasonableness. In doing so, they compare the prices received from the pricing vendor to prices of similar securities, price ranges in that asset class or industry or prices from internally generated position reports. If there is a discrepancy with the price received from the vendor, the portfolio manager may communicate this difference to the pricing vendor and present the vendor with additional market data regarding that security in order to insure the pricing vendor has sufficient information needed to accurately price the security. The pricing vendor will then independently validate and evaluate that data and determine if a price change is warranted.

In the rare instance when a portfolio manager finds a difference in his or her assessment of fair value and the vendor price, after performing the preceding procedures, the portfolio manager may request replacement of the vendor price by a supportable value that is believed to be more representative of the security price. Any replacement of the vendor price is subject to an internal approval process.

The fair values of private placement bonds are determined by using an internal pricing model or for a small amount of securities, assigned individual broker prices. There were seventy-seven private placement bonds that were individually priced. These assigned individual prices are usually obtained from an external broker ("hand priced") and are considered to be Level 3.

The significant inputs used for the internal pricing model consist of (i) a broker supplied price matrix, (ii) treasury rates and (iii) credit ratings from certain nationally recognized securities rating organizations ("NRSRO") ("external ratings") or a credit rating assigned internally by the Company's Private Placement Investment Management Group ("internal ratings").

Private placement bonds with an applicable external credit rating of BB or above, for which the corresponding matrix price is used, are classified as Level 2. A private placement bond with an applicable external credit rating of below BB is classified as Level 3 due to the limited amount of market data available for these securities.

Bonds are carried at amortized cost unless they are rated 6 by the NAIC SVO in which case they are reported at the lower of amortized cost or fair value. There no bonds rated 6 by the NAIC SVO and carried at fair value on December 31, 2017 and December 31, 2016. Impaired bonds carried at fair value on December 31, 2017 and December 31, 2016 were $7 million and $2 million, respectively.

Preferred stock is carried at amortized cost if they have a NAIC SVO rating of 1, 2 or 3 and at lower or cost or fair value if the rating assigned is 4, 5 or 6. There were no preferred stocks carried at fair value on December 31, 2017 and December 31, 2016.

Unaffiliated common stocks are reported at fair value.

### 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.

### NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following tables summarize the Company's financial instruments carried at fair value by their fair value hierarchy levels for the period ending December 31, 2017 and December 31, 2016:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Carrying Amount |
| **Assets** | | | (In millions) | | |
| Impaired Bonds | $ - | $ - | $ 7 | $ 7 | $ 7 |
| Common Stock | - | 536 | - | 536 | 536 |
| Total Assets | $ - | $ 536 | $ 7 | $ 543 | $ 543 |
| **Liabilities** | | | | | |
| Derivative instruments | $ - | $ - | $ - | $ - | $ - |
| Total Liabilities | $ - | $ - | $ - | $ - | $ - |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total Fair Value | Carrying Amount |
| **Assets** | | | (In millions) | | |
| Impaired Bonds | $ - | $ 2 | $ - | $ 2 | $ 2 |
| Common Stock | - | 438 | - | 438 | 438 |
| Total Assets | $ - | $ 440 | $ - | $ 440 | 440 |
| **Liabilities** | | | | | |
| Derivative instruments | $ - | $ 15 | $ - | $ 15 | $ 15 |
| Total Liabilities | $ - | $ 15 | $ - | $ 15 | $ 15 |

### NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table summarizes changes to the Company's financial instruments carried at fair value and classified as level 3 in the fair value hierarchy for the year ended December 31, 2017.

| Level 3 Roll Forward | **As of December 31, 2017** | | |
|---|---|---|---|
| (In Millions) | NAIC 6 Bonds | Impaired Bonds | Total |
| Fair Value , beginning of period | $ - | $ - | $ - |
| Total gains or (losses) (realized or unrealized): | | | - |
| Included in net income | - | - | - |
| Included in surplus | - | - | - |
| Purchases, sales, issuances, and settlements: | | | - |
| Purchases | - | - | - |
| Sales | - | - | - |
| Issuances | - | - | - |
| Settlements | - | - | - |
| Transfers into Level 3 | 7 | - | 7 |
| Transfers out of Level 3 | - | - | - |
| Fair value, end of period | $ 7 | $ - | $ 7 |

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2017, the Company transferred one security into Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

| Level 3 Roll Forward | **As of December 31, 2016** | | |
|---|---|---|---|
| (In Millions) | NAIC 6 Bonds | Impaired Bonds | Total |
| Fair Value , beginning of period | $ - | $ 8 | $ 8 |
| Total gains or (losses) (realized or unrealized): | | | - |
| Included in net income | - | - | - |
| Included in surplus | - | - | - |
| Purchases, sales, issuances, and settlements: | | | - |
| Purchases | - | - | - |
| Sales | - | (8) | (8) |
| Issuances | - | - | - |
| Settlements | - | - | - |
| Transfers into Level 3 | - | - | - |
| Transfers out of Level 3 | - | - | - |
| Fair value, end of period | $ - | $ - | $ - |

Transfers into and out of Level 3 are recognized at the end of the reporting period. During 2016, the Company transferred no securities into and out of Level 3. The transfers in and out of level 3 were determined by the observable/unobservable inputs used in pricing the securities.

### NOTE 5 – RESERVES FOR POLICY BENEFITS

Reserves for policy benefits represent the estimated net present value of future policy benefits, less future policy premiums, established using actuarial methods based on mortality and morbidity experience tables and valuation interest rates prescribed by the Department. Actual future experience will generally differ from assumptions used to determine these reserves.

Reserves for future policy benefits on life insurance issued in 1988 and later are calculated principally on the New Jersey Reserve Method or the Commissioners Reserve Valuation Method using the 1980 Commissioners' Standard Ordinary ("CSO") and the 2001 CSO mortality tables. Reserves on life policies issued before 1988 are calculated principally on the Net Level Premium Reserve Method using the American Experience, 1941, 1958 and 1980 CSO mortality tables. Annuity contract reserves are principally calculated using the 1983 Group Mortality table and the various Individual Annuity mortality tables. Assumed interest rates principally range from 2.5% to 5.5 % for direct business.

The reserves for Group Life Waiver and LTD reported claims are determined on a seriatim basis. Life waiver of premium reserves are determined primarily using the 1970 Inter-company Group Life Disability Table for claims incurred on or before December 31, 2008 and the 2005 Group Term Life Waiver Reserve Valuation Table for claims incurred on or after January 1, 2009. The interest rate is 4.0% for claims incurred on or before December 31, 2012 and 3.5% for claims incurred on or after January 1, 2013. Long-term disability reserves are determined using the 2012 Group Long-Term Disability Valuation Table for claims incurred on or after January 1, 2017 and Table 95a for claims incurred on or before December 31, 2016 for the first 24 months after disablement, and the 1987 Commissioners' Group Disability Table for greater than 24 months of disablement. The interest rates range from 2.75% to 5.0%, depending on the year of incurral. Short Term Disability (STD), Dental, and Medical claims incurred but not yet reported ("IBNR") reserves are estimated based on the Company's historical experience. Dental and Medical reserves include reasonable allowances for potential adverse deviation.

The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium paid beyond the date of death. The larger of legally computed reserves and cash surrender values on a policy-by-policy basis are held as liabilities. Plans, except for second-to-die plans, charge additional premiums for substandard lives based upon actual issue age. Second-to-die plans develop substandard reserves using the rated up age. Mean reserves are based on appropriate multiples of standard rates of mortality. As of December 31, 2017, the Company had $14 billion of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the State of New York. The reserves to cover the above insurance totaled $32 million. The Tabular Interest, the Tabular Less Actual Reserve Released and the Tabular Cost have been determined by formula. For the determination of Tabular Interest on funds not involving life for each valuation rate of interest, the tabular interest is calculated as the product of such valuation rate of interest times the average of the amount of funds subject to such valuation rate of interest held at the beginning and end of the year of valuation.

### NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

At December 31, 2017 and December 31, 2016 the withdrawal characteristics of the Company's annuity reserves and deposit liabilities were as follows:

| | As of December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | (1) General Account | (2) Separate Account with Guarantees | (3) Separate Account Non Guaranteed | (4) Total | (4) % of Total |
| A. Subject to discretionary withdrawal: | | | | | |
| (1) With market value adjustment | $ 10 | $ - | $ - | $ 10 | 0.5% |
| (2) At book value less current surrender charge of 5% or more | 60 | - | - | 60 | 3.3% |
| (3) At fair value | - | - | - | - | - |
| (4) Total with adjustment or at fair value (Total of 1 through 3) | $ 70 | $ - | $ - | $ 70 | 3.8% |
| (5) At book value without adjustment (with minimal or no charge or adjustment) | $ 546 | $ - | $ - | $ 546 | 29.6% |
| B. Not subject to discretionary withdrawal | $ 1,227 | $ - | $ - | $ 1,227 | 66.6% |
| C. Total (gross: direct + assumed) | $ 1,843 | $ - | $ - | $ 1,843 | 100.0% |
| D. Reinsurance ceded | - | - | - | - | - |
| E. Total (net)* (C)- (D) | $ 1,843 | $ - | $ - | $ 1843 | 100.0% |

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

| | As of December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | (1) General Account | (2) Separate Account with Guarantees | (3) Separate Account Non Guaranteed | (4) Total | (4) % of Total |
| A. Subject to discretionary withdrawal: | | | | | |
| (1) With market value adjustment | $ 10 | $ - | $ - | $ 10 | 0.7% |
| (2) At book value less current surrender charge of 5% or more | 63 | - | - | 63 | 4.3% |
| (3) At fair value | - | - | - | - | - |
| (4) Total with adjustment or at fair value (Total of 1 through 3) | $ 73 | $ - | $ - | $ 73 | 5.0% |
| (5) At book value without adjustment (with minimal or no charge or adjustment) | $ 548 | $ - | $ - | $ 548 | 37.4% |
| B. Not subject to discretionary withdrawal | $ 846 | $ - | $ - | $ 846 | 57.7% |
| C. Total (gross: direct + assumed) | $ 1,467 | $ - | $ - | $ 1,467 | 100.0% |
| D. Reinsurance ceded | - | - | - | - | - |
| | $ 1,467 | $ - | $ - | $ 1467 | 100.0% |

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities

### NOTE 5 – RESERVES FOR POLICY BENEFITS (CONTINUED)

#### Note Programs

Funding agreements are investment contracts whose reserve liabilities are equal to the account value and are established by contract deposits, increased by interest credited and decreased by contract coupon payments and maturities. Contract holders do not have the right to terminate the contract prior to the contractually stated maturity date. Credited interest rates vary by contract and can be fixed or floating.

Under the note programs, the Company creates special purpose entities ("SPEs"), which are investment vehicles or trusts, for the purpose of issuing medium-term notes to investors. Proceeds from the sale of the medium-term notes issued by these SPEs are used to purchase funding agreements from the Company. The medium term notes are secured by the funding agreements with the note issuer granting a security interest in the funding agreement to the indenture trustee for the notes. The payment terms of any particular series of notes are matched by the payment terms of the funding agreement securing the series. The Company has a $3.0 billion Global Medium-Term Note Program of which $1.2 billion notes have been issued with $1.2 billion remaining outstanding as of December 31, 2017. The $1.2 billion and $800 million is included in "Policyholder dividends payable and other contract liabilities" in the Statutory Basis Balance Sheets as of December 31, 2017 and December 31, 2016, respectively.

### NOTE 6 – PREMIUM AND ANNUITY CONSIDERATIONS DEFERRED AND UNCOLLECTED

Gross deferred and uncollected life insurance premiums represent premiums due to be received from policy owners through the next policy anniversary date. Net deferred and uncollected life insurance premiums represent only the portion of gross premiums related to mortality charges and interest. Deferred and uncollected life insurance premiums at December 31, 2017 and December 31, 2016 were as follows:

| | 2017 (In millions) | | 2016 (In millions) | |
|---|---|---|---|---|
| Type | Gross | Net | Gross | Net |
| Ordinary new business | $ 64 | $ 64 | $ 67 | $ 67 |
| Ordinary renewal | 674 | 581 | 656 | 569 |
| Group life | 175 | 351 | 168 | 341 |
| Totals | $ 913 | $ 996 | $ 891 | $ 977 |

### 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 recognized this surplus reduction over a period of up to ten years, which the Company elected.

**Plan Amendments**
On September 8, 2016, the Company announced a plan amendment to freeze The Guardian Retirement Plan for Field Clerical Employees effective December 31, 2016. The plan amendment affects only the Field Clerical defined benefit pension plan. The announcement of the plan freeze resulted in a plan curtailment. As a result of this amendment, all plan participants ceased accruing additional benefits under the plan effective December 31, 2016. As of December 31, 2016, all active plan participants who completed one year of service (were hired no later than January 1, 2016) were fully vested in their accrued benefit. On September 26, 2016, the Company filed a determination letter with the Internal Revenue Service requesting approval to terminate the plan.

On May 23, 2017, the Company received a favorable determination letter from the IRS. From September to October 2017, Plan participants who were not yet receiving annuity payments were offered a one-time opportunity to receive their benefit in a lump sum payment. Lump sum payments were mailed to participants in December 2017 and paid out using the Field Clerical defined benefit pension plan assets. The December 2017 Lump Sum payments attributable to Field Clerical defined benefit pension plan were $35.3 million and resulted in a partial settlement. As a result, a settlement charge of $10.5 million was recognized as of December 31, 2017, equal to a pro rata portion of the aggregate unamortized net loss (including the gain or loss resulting from re-measurement of the plan assets at fair value). The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the partial settlement.

On September 8, 2016, the Company announced that all postretirement benefits offered to Field Clerical employees, Full Time Agents and General Agents ended on December 31, 2016. Field Clerical employees, Full Time Agents and General Agents eligible for postretirement benefits received a Special Transition Benefit in December 2016. The Special Transition Benefit was a one-time, lump sum cash payment in lieu of life insurance coverage and the contribution Guardian provides to retirees to help pay for retiree medical and dental coverage. The Company recorded a curtailment gain to recognize a reduction in the accrued postretirement benefit obligation for removing Field Clerical employees, Full Time Agents and General Agents who were not eligible for postretirement benefits as of December 31, 2016.

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

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The table below discloses the remaining unrecognized transition impact:

| Surplus Impact at Transition | | |
|---|---|---|
| Transition Liability | $ | 260 |
| Amount Recognized on January 1, 2013 | | (59) |
| Accelerated Transition Liability recognized due to funded status gains – December 31, 2013 | | (120) |
| Remaining Transition Liability - December 31, 2013 | | 81 |
| Transition amount recognized during 2014 | | (19) |
| Transition amount recognized during 2015 | | (33) |
| Transition amount recognized during 2016 | | (13) |
| Transition amount recognized during 2017 | | (13) |
| Remaining Transition Liability - December 31, 2017 | $ | 3 |

The table below discloses the anticipated recognition of the remaining transition impact:

| Minimum Transition Liability: | Anticipated Amortization | Remaining Transition Liability |
|---|---|---|
| 2018 | 3 | - |

**Components of Net Periodic Benefit Expense**

The components of net periodic pension and postretirement benefits expense including the amount of unrecognized items amortized into expense for the years ended December 31 are as follows:

| | Pension Benefits | | Postretirement Benefit | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (In millions) | | | |
| Service cost | $ 76 | $ 71 | $ 6 | $ 6 |
| Interest cost | 100 | 95 | 9 | 11 |
| Expected return on plan assets | (131) | (132) | (9) | (10) |
| Amortization of transition amount | 1 | 1 | - | - |
| Amortization of prior service costs | - | - | (2) | (8) |
| Amortization of actuarial net loss | 58 | 46 | 3 | 17 |
| Curtailment | - | - | - | (6) |
| Settlement | 11 | - | - | 2 |
| Net periodic expense | $ 115 | $ 81 | $ 7 | $ 12 |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Changes in the projected benefit obligations and plan assets during the years ended December 31, 2017 and December 31, 2016 were as follows (in millions):

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| **Change in benefit obligation** | **2017** | **2016** | **2017** | **2016** |
| Benefit obligation, at beginning of period | $ 2,352 | $ 2,038 | $ 226 | $ 240 |
| Service cost | 76 | 71 | 6 | 6 |
| Interest cost | 101 | 95 | 9 | 11 |
| Actuarial loss | 282 | 229 | 20 | 9 |
| Curtailments | - | (9) | - | (9) |
| Settlements | (37) | - | - | (18) |
| Benefits paid | (74) | (72) | (12) | (13) |
| Other | 19 | - | - | - |
| Benefit obligation, at end of period | $ 2,719 | $ 2,352 | $ 249 | $ 226 |

| | Pension Benefits | | Postretirement | |
|---|---|---|---|---|
| **Change in fair value of plan assets** | **2017** | **2016** | **2017** | **2016** |
| Plan assets, at beginning of period | $ 1,766 | $ 1,672 | $ 134 | $ 134 |
| Actual return on plan assets | 252 | 151 | 23 | 13 |
| Employer contributions | 146 | 15 | - | - |
| Settlements | (37) | - | - | - |
| Benefits paid | (74) | (72) | (12) | (13) |
| Other | 19 | - | - | - |
| Plan assets, at end of period | $ 2,072 | $ 1,766 | $ 145 | $ 134 |

| | Pension Benefits | | Postretirement | |
|---|---|---|---|---|
| **Funded status** | **2017** | **2016** | **2017** | **2016** |
| Funded status at end of period | $ (647) | $ (586) | $ (104) | $ (92) |
| Unrecognized transition liability | 1 | 2 | - | - |
| Unrecognized prior service costs | 1 | 1 | 4 | 2 |
| Unrecognized actuarial net loss | 889 | 796 | 61 | 58 |
| Net amount recognized | $ 244 | $ 213 | $ (39) | $ (32) |

| | Pension Benefits | | Postretirement | |
|---|---|---|---|---|
| **Recognized as of December 31** | **2017** | **2016** | **2017** | **2016** |
| Prepaid benefit cost | $ - | $ - | $ 11 | $ 9 |
| Less assets non admitted | - | - | (11) | (9) |
| Accrued liability | (647) | (586) | (112) | (85) |
| Net amount recognized | $ (647) | $ (586) | $ (112) | $ (85) |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

Unrecognized actuarial net gains or losses represent cumulative amounts by which plan experience for return on plan assets or changes in benefit obligations has been more or less favorable than assumed. These net differences are recognized in surplus, and in future years recognized as components of expense.

The amounts below are estimated to be amortized from surplus into net periodic benefit cost in 2018 as follows:

| | Pension Benefits | Other Benefits |
|---|---|---|
| | (In millions) | |
| Net transition obligation | $ 1 | $ - |
| Net prior service cost | - | (2) |
| Net loss | 75 | 4 |
| | $ 76 | $ 2 |

### Assumptions

Weighted average assumptions used in calculating the benefit obligations were as follows:

| | Pension Benefits | | Post Retirement Benefits | |
|---|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Discount rate | 3.80% | 4.35% | 3.75% | 4.30% |
| Rate of compensation increase | 3.00% | 3.00% | n/a | n/a |

Weighted average assumptions used in calculating the net periodic benefit cost were as follows:

| | Pension Benefits For the Years Ended | | Post Retirement Benefits For the Years Ended | |
|---|---|---|---|---|
| | December 31, 2017 | December 31, 2016 | December 31, 2017 | December 31, 2016 |
| Discount rate | 4.35% | 4.75% | 4.30% | 4.70% |
| Rate of compensation increase | 3.00% | 3.00% | 3.00% | 3.00% |
| Expected return on plan assets: | | | | |
| Assets in trust account | 7.80% | 8.00% | 7.80% | 8.00% |
| Assets held under insurance contract/other | n/a | 4.35% | n/a | 4.35% |

Assumed health care cost trend rates were as follows:

| | As of December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Medical & Prescription Pre - Age 65 | 7.5%, grading to 4.5% over 13 years | 6.3%, grading to 4.5% over 10 years |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The trend rates above reflect the Company's current claim experience and management's expectation that future rates of growth will decline. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. At December 31, 2017, a one-percent-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation ("APBO") for postretirement benefits by $0.1 million and $2.0 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by $0.1 million and $1.9 million, respectively. At December 31, 2016, a one-percentage-point increase assumed health care cost trend rates would have increased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by $0.1 million and $1.5 million, respectively. A one percentage-point decrease in assumed healthcare cost trend rates would have decreased the total service/interest cost components and accumulated postretirement benefit obligation for postretirement benefits by $0.1 million and $1.4 million, respectively.

The accumulated benefit obligations ("ABO") for the funded and unfunded pension plans were $2,072 million and $413 million, respectively, at December 31, 2017 and $1,754 million and $335 million, respectively, at December 31, 2016. The APBO for the postretirement plans was $249 million at December 31, 2017 and $226 million at December 31, 2016.

For the pension plans with ABO in excess of plan assets, the projected benefit obligations, accumulated benefit obligations, and fair value of plan assets were $2,719 million, $2,485 million, and $2,072 million respectively at December 31, 2017 and $1,033 million, $917 million, and $583 million respectively at December 31, 2016.

Prior to 2017, the pension plans held immediate participation guarantee group annuity ("IPG") contracts purchased from the Company. These contracts were expected to provide future benefits to plan participants specifically covered by these contracts of $18 million at December 31, 2016. During 2017, the contract liabilities totaling $19 million were transferred into the obligations of the pension plans and are reflected in the Projected Benefit Obligations of the plans. The IPG contracts are no longer active.

With respect to the Company's pension plans, the actuarially calculated funding amount ranges from the minimum amount the Company would be required to contribute to the maximum amount that would be deductible for tax purposes. Contribution amounts in excess of the minimum amounts are deemed voluntary. Amounts in excess of the maximum amount would be subject to an excise tax and may not be deductible under the Internal Revenue Code. The Company made contributions totaling $142 million in 2017 to its pension plans and expects to make a $18.1 million contribution in 2018 to its field clerical defined benefit pension plan.

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

**Benefit Payments**
The following table disclosed the expected benefit payments for the Company's pension and postretirement plans. The expected benefit payments for 2018 include the payments associated with the decision to terminate the Field Clerical defined benefit pension plan.

| | Pension Benefits | Other Benefits |
|---|---|---|
| **Estimated Future Payments** | (In millions) | |
| 2018 | $ 235 | $ 13 |
| 2019 | 140 | 14 |
| 2020 | 142 | 14 |
| 2021 | 152 | 15 |
| 2022 | 149 | 15 |
| 2023-2027 | 822 | 85 |

**Plan Assets**
The Company's pension and postretirement plans' asset allocation by major asset class at December 31, 2017 and December 31, 2016, and the target allocation for 2018, are as follows:

| | Target Allocation | Percentage of Plan Assets at | |
|---|---|---|---|
| **Asset Category** | **2018** | **As of December 31, 2017** | **As of December 31, 2016** |
| U.S. Stocks | 10%-50% | 31% | 36% |
| International Stocks | 5%-15% | 6% | 7% |
| Non-convertible Bonds | 45%-75% | 63% | 57% |
| Convertible Bonds | 0%-10% | 0% | 0% |
| | | 100% | 100% |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

The investment strategy with respect to the Company's pension plan assets is to preserve capital and to seek investment returns with a goal of fully funding the plan.

The expected rate of return was 7.8% for the year ending December 31, 2017 and 8.0% for the year ending December 31, 2016. These rates of return are an aggregation of expected returns within each asset category. The return with respect to each asset class considers both historical returns and the future expectations for such returns.

Target allocations of assets are determined with the objective of maximizing returns and minimizing volatility of net assets through adequate asset diversification and partial liability immunization. Adjustments are made to target allocations based on the Company's assessment of the impact of economic factors and market conditions.

The following table summarizes the Master Trust's financial instruments carried at fair value hierarchy levels. The fair values were estimated using the same methodology described in Note 4.

| | As of December 31, 2017 (In millions) | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Estimated Fair Value** |
| 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 |

### NOTE 7 – EMPLOYEE AND REPRESENTATIVE BENEFIT PLANS (CONTINUED)

| | As of December 31, 2016 (In millions) | | | |
|---|---|---|---|---|
| **Description** | **Level 1** | **Level 2** | **Level 3** | **Estimated Fair Value** |
| Common stocks | $ - | $ 643 | $ - | $ 643 |
| Fixed maturities | | | | |
| U.S. Government | 2 | - | - | 2 |
| All other Government | - | 7 | - | 7 |
| States, Territories | - | 3 | - | 3 |
| Political Subdivisions | - | 1 | - | 1 |
| Special revenue | - | 6 | - | 6 |
| Industrial and Miscellaneous | - | 1,025 | - | 1,025 |
| Total Fixed maturities | 2 | 1,042 | - | 1,044 |
| Total | $ 2 | $ 1,685 | $ - | $ 1,687 |

There were no financial instruments carried at fair value and classified as Level 3 for the years ending December 31, 2017 and 2016.

**Defined Contribution Plans**

The Company sponsors defined contribution plans. Home office employees are covered by investment and profit sharing plan pension plans 401(k)/401(a). Employees can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 10% (if not highly paid) of non-matched contributions. In addition, the Company provides a profit sharing allocation in proportion to salary. Field representatives are covered by a 401(k)/401(a) investment plan in which they can invest up to 3% of their salary matched by an equal amount from the Company. They are also allowed an additional 12% (if not highly paid) of non-matched contributions. The assets for the home office employees and field representatives' plans are held in a trust. Full time agents and general agents are covered by non-contributory plans. The Company contributed $29 million to these plans in 2017 and $24 million in 2016. The Company funds these plans and reflects the funded amounts as a liability.

### 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.

### NOTE 8 – INCOME TAXES (CONTINUED)

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes.

The Tax Cuts and Jobs Act ("the Act") was enacted into law on December 22, 2017. Effective January 1, 2018, the Act reduces the corporate tax rate to 21%. The Act also included several provisions that impact life insurance companies, including the elimination of the net operating loss carryback and changing the calculation of life insurance tax reserves. As a result, the Company performed a review of its grouping of temporary differences and modified its grouping methodology for advanced premium in the admissibility calculation. The net surplus impact primarily as a result of the Act was $140 million reduction in unassigned surplus.

The Company included reasonable estimates for certain effects of the Act and recorded provisional amounts as of December 31, 2017. The Company recorded provisional amounts for tax reserves which resulted in an increase in both deferred tax assets and deferred tax liabilities of $142 million. The Company also recorded a provisional amount of $28 million for the amount of deferred tax assets expected to be realized following the balance sheet date as part of 11 (b) of the admissibility calculation. The Company is currently evaluating these provisional amounts and expects to be complete within one year of the enactment date of the Act. Future changes to these provisional amounts, if any, will be recognized as a change in accounting estimate as the necessary information to update the provisional amounts becomes available.

The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, Surplus and Other Funds are as follows:

| | December 31, 2017 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ 1,385 | $ 37 | $ 1,422 |
| Statutory valuation allowance adjustments | - | - | - |
| Adjusted Gross Deferred Tax Assets | 1,385 | 37 | 1,422 |
| Deferred Tax Assets Nonadmitted | 23 | - | 23 |
| Subtotal Net Admitted Deferred Tax Asset | 1,362 | 37 | 1,399 |
| Deferred Tax Liabilities | 737 | 75 | 812 |
| Net Admitted Deferred Tax Asset | $ 625 | $ (38) | $ 587 |

| | December 31, 2016 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ 1,895 | $ 45 | $ 1,940 |
| Statutory valuation allowance adjustments | - | - | - |
| Adjusted Gross Deferred Tax Assets | 1,895 | 45 | 1,940 |
| Deferred Tax Assets Nonadmitted | 274 | - | 274 |
| Subtotal Net Admitted Deferred Tax Asset | 1,621 | 45 | 1,666 |
| Deferred Tax Liabilities | 817 | 122 | 939 |
| Net Admitted Deferred Tax Asset | $ 804 | $ (77) | $ 727 |

| | Change | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ (510) | $ (8) | $ (518) |
| Statutory valuation allowance adjustments | - | - | - |
| Adjusted Gross Deferred Tax Assets | (510) | (8) | (518) |
| Deferred Tax Assets Nonadmitted | (251) | - | (251) |
| Subtotal Net Admitted Deferred Tax Asset | (259) | (8) | (267) |
| Deferred Tax Liabilities | (80) | (47) | (127) |
| Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) | $ (179) | $ 39 | $ (140) |

As a result of the new tax law and rate, gross DTAs and DTLs were reduced by $947 million and $541 million, respectively.

A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company's management has concluded that the deferred income tax assets are more likely than not to be realized. Therefore, no valuation allowance has been provided.

**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, 2017 and 2016.

| | 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.) | $ 1,362 | $ 37 | $ 1,399 |

| | December 31, 2016 | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks. | $ 683 | $ 44 | $ 727 |
| 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) | - | - | - |
| The lesser of: | | | |
| i. Adjusted gross deferred tax assets expected to be realized following the balance sheet date | - | - | - |
| ii. Adjusted gross deferred tax assets allowed per limitation threshold. | N/A | N/A | - |
| c. Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from a. and b. above) offset by gross deferred tax liabilities. | 938 | 1 | 939 |
| Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.) | $ 1,621 | $ 45 | $ 1,666 |

| | Change | | |
|---|---|---|---|
| | Ordinary | Capital | Total |
| a. Federal income taxes paid in prior years recoverable through loss carrybacks. | $ (683) | $ (7) | $ (690) |
| 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 | (126) | (1) | (127) |
| Deferred tax assets admitted as the result of application of SSAP No. 101.Total (a. + b. + c.) | $ (259) | $ (8) | $ (267) |

*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.

| | 2017 | 2016 |
|---|---|---|
| Ratio percentage used to determine recovery period and threshold limitation amount | 1050% | 996% |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitation | $ 7,458 | $ 6,743 |

### NOTE 8 – INCOME TAXES (CONTINUED)

**Impact of Tax Planning Strategies**

| | 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% |

| | December 31, 2016 | |
|---|---|---|
| | Ordinary | Capital |
| 1. Adjusted Gross DTAs amount | 1,895 | 45 |
| 2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax planning strategies | 0.0% | 2.3% |
| 3. Net Admitted Adjusted Gross DTAs amount | 1,621 | 45 |
| 4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the impact of tax planning strategies | 0.0% | 6.0% |

| | Change | |
|---|---|---|
| | Ordinary | Capital |
| 1. Adjusted Gross DTAs amount | (510) | (8) |
| 2. Percentage of adjusted gross DTAs by tax character attributable to the impact of tax | 0.0% | 0.2% |
| 3. Net Admitted Adjusted Gross DTAs amount from | (259) | (8) |
| 4. Percentage of net admitted adjusted gross DTAs by tax character admitted because of the | 0.0% | 0.1% |

Does the Company's tax-planning strategies include the use of reinsurance? Yes ______ No __X__

All DTL were recognized as of December 31, 2017 and December 31, 2016

**Current income taxes incurred consisted of the following major components:**

| Description | December 31, 2017 | December 31, 2016 | Change |
|---|---|---|---|
| (In millions) | | | |
| Federal income tax expense on operating income | $ 97 | $ 169 | $ (72) |
| Prior year overaccrual | (32) | (28) | (4) |
| Contingent tax | - | - | - |
| Current Federal operations income tax expense | $ 65 | $ 141 | $ (76) |
| | | | |
| Federal income tax expense on capital gains | $ 141 | $ 136 | $ 5 |
| Prior year underaccrual | 11 | 28 | (17) |
| Current Federal capital gain income tax expense | $ 152 | $ 164 | $ (12) |
| | | | |
| Federal and foreign income taxes incurred | $ 217 | $ 305 | $ (88) |

### 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:

| | 2017 | 2016 | Change |
|---|---|---|---|
| DTAs Resulting from Book/Income Tax Differences In: | | (In millions) | |
| Ordinary: | | | |
| Reserves | $ 582 | $ 617 | $ (35) |
| Policy acquisition costs | 258 | 411 | (153) |
| Dividend provision | 180 | 298 | (118) |
| Liabilities for employees and agents | 100 | 152 | (52) |
| Non admitted assets | 222 | 335 | (113) |
| Contract liabilities and unpaid claims | 1 | 1 | - |
| Leasehold improvement | 12 | 12 | - |
| Other | 30 | 69 | (39) |
| Gross ordinary DTA - (admitted and nonadmitted) | $ 1,385 | $ 1,895 | $ (510) |
| Statutory valuation allowance adjustment - ordinary | - | - | - |
| Total ordinary DTA - (nonadmitted) | 23 | 274 | (251) |
| Admitted ordinary DTA | 1,362 | 1,621 | (259) |
| Capital: | | | |
| Impaired securities | 32 | 39 | (7) |
| Other | 5 | 6 | (1) |
| Gross capital DTA - (admitted and nonadmitted) | 37 | 45 | (8) |
| Total capital DTA - (nonadmitted) | - | - | - |
| Admitted capital DTA | 37 | 45 | (8) |
| Total admitted DTA | $ 1,399 | $ 1,666 | $ (267) |
| DTLs Resulting from Book/Income Tax Differences In: | | | |
| Ordinary: | | | |
| Deferred and uncollected premiums | $ 229 | $ 370 | $ (141) |
| Advanced Premium | 66 | - | 66 |
| Reserve Transition Adjustment (8 Year) | 142 | - | 142 |
| Guaranteed dividend | 120 | 202 | (82) |
| Other invested assets | 68 | 86 | (18) |
| Pension | 43 | 64 | (21) |
| Reserves 10 Year spread | 13 | 27 | (14) |
| Other | 56 | 68 | (12) |
| Ordinary DTL | $ 737 | $ 817 | $ (80) |
| Capital: | | | |
| Unrealized capital gains | 25 | 26 | (1) |
| Deferred gain | 49 | 92 | (43) |
| Other | 1 | 4 | (3) |
| Capital DTL | 75 | 122 | (47) |
| Total DTL | $ 812 | $ 939 | $ (127) |
| Net admitted DTA/(DTL) | $ 587 | $ 727 | $ (140) |

The Change in net deferred income taxes is comprised of the following:

| | 2017 | 2016 | Change |
|---|---|---|---|
| Adjusted gross deferred tax assets | $ 1,422 | $ 1,940 | $ (518) |
| Total Deferred Tax Liabilities | 812 | 939 | (127) |
| Net deferred tax assets (liabilities) | $ 610 | $ 1,001 | $ (391) |
| Tax effect of net unrealized gains (losses) | | | - |
| Change in net deferred income tax | | | $ (391) |

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).

### 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:

| | December 31, 2017 | Effective Tax Rate |
|---|---|---|
| | (In millions) | |
| Net gain from operations after dividends to policyholders and before Federal income tax @ 35% | $ 181 | |
| Net realized capital gains (losses) @ 35% | 43 | |
| Provision calculated at statutory rate | 224 | 35.00% |
| Tax effect of: | | |
| Interest maintenance reserve | 24 | 3.75% |
| Affiliated Dividends | (18) | (2.81%) |
| Pension Adjustment | (38) | (5.94%) |
| Change in Tax law and rate | 423 | 66.09% |
| Other | (7) | (1.09%) |
| Total statutory income taxes | $ 608 | 95.00% |
| Federal income taxes incurred | 217 | 33.91% |
| Change in net deferred income taxes | 391 | 61.09% |
| Total statutory income taxes | $ 608 | 95.00% |

**Operating Loss and Tax Credit Carryforwards**

As of December 31, 2017, the Company does not have any net ordinary loss carryforwards, capital loss carryforwards or tax credit carryforwards.

The following are income taxes incurred in prior years that are available for recoupment in the event of future net losses:

| Year | Ordinary | Capital | Total |
|---|---|---|---|
| | | (In millions) | |
| 2017 | $ - | $ 135 | $ 135 |
| 2016 | - | 152 | 152 |
| 2015 | - | 137 | 137 |
| Total | $ - | $ 424 | $ 424 |

As of December 31, 2017, the Company does not have any deposits admitted pursuant to the Internal Revenue Code Section 6603.

### 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:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ (463) | $ (460) |
| Commissions and expense allowances (other income) | 121 | 119 |
| Total revenues | (342) | (341) |
| Benefit payments to policyholders and beneficiaries | (350) | (359) |
| Net reductions to policy benefit reserves | (49) | (86) |
| Commissions and operating expenses | 2 | 5 |
| Total expenses | (397) | (440) |
| Net gain on operations from reinsurance ceded | $ 55 | $ 99 |

**NOTE 10 – REINSURANCE ASSUMED**

The Company enters into various modified coinsurance agreements, coinsurance agreements, and combinations thereof and yearly renewable term agreements that provide reinsurance on life insurance, annuities, credit life, disability insurance, and credit accident and health business. Under the terms of the various reinsurance treaties, the Company assumed (net of retrocession) approximately \$3.3 billion face amount of life insurance at December 31, 2017 and \$3.4 billion at December 31, 2016. Under the terms of modified coinsurance agreements, reserves related to the reinsured business and the corresponding assets are held by the ceding company.

The Company entered into a coinsurance agreement with BLICOA an affiliated insurance company effective January 1, 2013. Under the agreement, the Company assumed 80% of the net individual disability insurance (IDI) originally ceded to BLICOA from the Company via the July 1, 2001 coinsurance treaty as well as 80% of the IDI and multi-life (ML) business written by BLICOA since the 2001 treaty. The reinsurance is done on a funds withheld basis with supporting invested assets remaining in BLICOA.

Also, as part of the terms of the agreement, the Company can request that BLICOA pay an amount equal to the Annual Funds Withheld Increase to the Company. In 2017 the Company did not request that BLICOA pay an amount equal to the Annual Funds Withheld Increase it recorded in 2016. In January 2016, as part of the terms of its reinsurance agreement with BLICOA, the Company requested that BLICOA pay a partial amount of the Annual Funds Withheld Increase it recorded in 2015. BLICOA paid the Company the agreed upon settlement amount of \$65 million in January 2016. The settlement consisted of \$33 million of bonds and \$32 million of cash.

The Company entered into one Individual Life Yearly Renewable Term reinsurance agreement with an affiliated insurance company GIAC, effective January 1, 2011. The agreement covers GIAC's current form Secondary Guarantee Universal Life and Survivorship Universal Life plans having policy effective dates of January 1, 2011 and later. Reinsurance under the agreement is assumed on an automatic 90% first dollar quota share basis.

**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**

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ 659 | $ 639 |
| Reserve adjustments on reinsurance (other income) | 22 | 23 |
| Total revenues | 681 | 662 |
| Benefit payments to policyholders and beneficiaries | 258 | 275 |
| Net additions to policy benefit reserves | 138 | 126 |
| Commissions and operating expenses | 225 | 210 |
| Total expenses | 621 | 611 |
| Net gain on operations from reinsurance assumed | $ 60 | $ 51 |

**Reinsurance Assumed from Non-Affiliates**

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ 3 | $ 2 |
| Total revenues | 3 | 2 |
| Benefit payments to policyholders and beneficiaries | (1) | (2) |
| Net reductions to policy benefit reserves | (2) | (1) |
| Commissions and operating expenses | 4 | 7 |
| Total expenses | 1 | 4 |
| Net gain/(loss) on operations from reinsurance assumed | $ 2 | $ (2) |

**Total Reinsurance Assumed**

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Premiums, annuity considerations and fund deposits | $ 662 | $ 641 |
| Reserve adjustments on reinsurance (other income) | 22 | 23 |
| Total revenues | 684 | 664 |
| Benefit payments to policyholders and beneficiaries | 257 | 273 |
| Net additions to policy benefit reserves | 136 | 125 |
| Commissions and operating expenses | 229 | 217 |
| Total expenses | 622 | 615 |
| Net gain on operations from reinsurance assumed | $ 62 | $ 49 |

### NOTE 11 – RELATED PARTY TRANSACTIONS

During 2016, the Company sold $27 million of bank loans that it held in its general account to a downstream affiliate, Park Avenue Institutional Advisers CLO LTD 2016-1 ("PAIA CLO 2016-1"). The Company recorded a $1 million loss on the sale of the bank loans in 2016. PAIA CLO 2016-1 is a special purpose vehicle ("SPV") that was established in the Cayman Islands whose purpose is to be the "Issuer" of one or more classes of notes that are secured by a portfolio of investments held by the Issuer and rated by at least one rating agency (the "Rated Notes"), and one or more classes of notes that are unrated and subordinate in right of payment to the Rated Notes (the "Subordinated Notes"). PAIA CLO 2016-1 issued $363 million in notes in August 2016.

In 2017 and 2016, the Company made the following capital contributions to its real estate joint ventures and affiliates which are an addition to Other invested assets in the Statutory Basis Balance Sheets:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Guardian CapCo, LLC | $ - | $ 3 |
| Truamerica Properties, LLC | - | 7 |
| Truamerica Properties II, LLC | - | 1 |
| Lowes Capital Partners 2A, LLC | - | 3 |
| Lowes Capital Partners 2B, LLC | - | 2 |
| Guardian Abbey, LLC | 1 | 1 |
| Guardian Shores, LLC | - | 16 |
| Total | $ 1 | $ 33 |

In 2017 and 2016, the Company made the following capital contributions to its subsidiaries:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| GIAC | $ 50 | $ 100 |
| GIS | 112 | 365 |
| FCW | 58 | 204 |
| Guardian Acquisition I, LLC | 25 | - |
| Total | $ 245 | $ 669 |

### NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

The capital contribution to GIS and Guardian Acquisition I, LLC are recorded as an addition to Other invested assets in the Statutory Basis Balance Sheets, while the capital contributions to GIAC and FCW are recorded as an addition to Common and preferred stocks in the Statutory Basis Balance Sheets.

Of the $112 million contribution to GIS in 2017, $90 million was made by transferring Access Professional Dental Care, LLC and Access Dental Services, LLC and its subsidiaries, previously wholly owned subsidiaries of FCW, and $2 million was related to the transfer of real estate joint venture LLCs.

Of the $365 million contribution to GIS in 2016, $235 million was made by transferring real estate joint venture LLCs and $130 million was made by transferring Reed Group, Ltd., a previously wholly owned subsidiary of FCW.

In 2017, the Company received no returns of capital from its real estate affiliates. In 2016, the Company received returns of capital from its real estate affiliates as follows, which are a reduction to Other invested assets in the Statutory Basis Balance Sheets:

| | 2016 |
|---|---|
| | (In millions) |
| Guardian LCP Hospitality I, LLC | $ 1 |
| Guardian Westwood Holdings, LLC | 10 |
| Guardian LCP Hospitality Finance, LLC | 3 |
| Total | $ 14 |

In 2017 and 2016, the Company received net returns of capital of $60 million and $56 million respectively from its real estate joint ventures. These distributions are a reduction to Other invested assets in the Statutory Basis Balance Sheets.

In 2017 and 2016, the Company also received returns of capital from its subsidiaries as follows:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| BLICOA | $ - | $ 20 |
| FCW | 113 | 158 |
| GIS | - | 178 |
| PALIC | 25 | - |
| Total | $ 138 | $ 356 |

The return of capital from GIS is recorded as a reduction to Other invested assets in the Statutory Basis Balance Sheets, while the returns of capital from BLICOA, FCW, and PALIC are recorded as an reduction to Common and preferred stocks in the Statutory Basis Balance Sheets.

Of the $113 million return of capital from FCW in 2017, $90 million was a transfer of Access Professional Dental Care, LLC and Access Dental Services, LLC and its subsidiaries, wholly owned subsidiaries of FCW.

Of the $158 million return of capital from FCW in 2016, $130 million was a transfer of Reed Group Ltd., a wholly owned subsidiary of FCW.

### NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

In 2017 and 2016, the Company received the following dividends from its affiliates and subsidiaries which are recorded as Net investment income in the Statutory Basis Statements of Operations:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| BLICOA | $ 3 | $ 6 |
| Managed Dental Care of California ("MDC") | 5 | 5 |
| Managed Dental Guard of Texas, Inc. (TX) | 1 | 1 |
| FCW | 37 | - |
| Innovative Underwriters, Inc. | 1 | - |
| | $ 47 | $ 12 |

The Company has expense sharing agreements with its subsidiaries. During 2017 and 2016, the Company had net billings of $278 million and $296 million, respectively, under the expense sharing agreements. Amounts billed to subsidiaries are included in Commissions and operating expenses in the Statutory Basis Statements of Operations. The unpaid net receivable balance due from subsidiaries relevant to these agreements was $31 million and $29 million on December 31, 2017 and December 31, 2016, respectively, and are included in Other assets and Other liabilities in the Statutory Basis Balance Sheets.

Effective May 1, 2017, the Company (Lender) amended its revolving line of credit agreement with GIAC (Borrower) from $350 million to $750 million. The terms of the credit agreement state that future drawing, if any, (not at the time overdue) shall bear interest at a rate per annum equal to (a) the Prime Rate plus 1.00% if a Prime Rate Loan or (b) the Eurodollar Rate plus 1.00% if a Eurodollar Rate Loan. In the event any drawing on the line of credit becomes due, whether by acceleration or otherwise, it shall bear interest at a rate per annum equal to the Prime Rate plus 2.00%. Additionally, a commitment fee equal to 0.125% per annum of the amount of this line of credit shall be paid by Borrower to Lender, such amount to be paid in quarterly installments on the last day of each March, June, September and December or on the termination of this line of credit. For Value Received, the Borrower, promises to pay on the maturity date or dates determined by the Lender, the principal sum of $750 million or the aggregate unpaid principal sum of all Loans which the Lender actually makes to the Borrower, whichever amount is less, together with interest in arrears payable on each Interest Due Date at a rate computed on the basis of a 360-day year for the actual number of days in each interest period. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender shall notify the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIAC is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2017, and 2016 the amounts of drawings on the line of credit amounted to $0 million and $148 million, respectively, and are included in Cash, cash equivalents and short-term investments in the Statutory Basis Balance Sheets. Interest income and commitment income of $3 million and $2 million as of December 31, 2017 and 2016, respectively, are included in Net investment income in the Statutory Basis Statements of Operations.

### NOTE 11 – RELATED PARTY TRANSACTIONS (CONTINUED)

Effective January 3, 2017, the Company (Lender) has a revolving line of credit agreement with GIS (Borrower) for $300 million. The terms of the credit agreement state that future drawing, if any, (not at the time overdue) shall bear interest at a rate per annum equal to (a) the Prime Rate plus 1.00% if a Prime Rate Loan or (b) the Eurodollar Rate plus 1.00% if a Eurodollar Rate Loan. In the event any drawing on the line of credit becomes due, whether by acceleration or otherwise, it shall bear interest at a rate per annum equal to the Prime Rate plus 2.00%. Additionally, a commitment fee equal to 0.125% per annum of the amount of this line of credit shall be paid by Borrower to Lender, such amount to be paid in monthly installments no later than the last day of each month or on the termination of this line of credit. For Value Received, the Borrower, promises to pay on the maturity date or dates determined by the Lender, the principal sum of $300 million, or the aggregate unpaid principal sum of all Loans which the Lender actually makes to the Borrower, whichever amount is less, together with interest in arrears payable on each Interest Due Date at a rate computed on the basis of a 360-day year for the actual number of days in each interest period. The line of credit agreement shall have an initial term of 364 days beginning with the date first stated above, and shall automatically renew for successive periods of 364 days, unless the Lender shall notify the Borrower of its intention not to renew the line of credit agreement not less than sixty (60) days prior to the expiration of the then existing term. GIS is in compliance with certain financial covenants imposed by the line of credit agreement. As of December 31, 2017, the amounts of drawings on the line of credit amounted to $25 million, and are included in Cash, cash equivalents and short-term investments in the Statutory Basis Balance Sheets. Interest income and commitment income of $1 million as of December 31, 2017, are included in Net investment income in the Statutory Basis Statements of Operations.

The Company (Lender) had a revolving line of credit agreement with RS (Borrower) for $15 million which terminated upon the sale of RS on July 29, 2016.

**Related Party Commitments:**

The Company provides financial guarantees on behalf of some of its subsidiaries and affiliates as listed below. Per the statutory accounting guidance SSAP 5R, a liability has not been recorded on the Company's Statutory Basis Balance Sheets for any of these guarantees.

The Company continues to provide MDC, a subsidiary, a written letter of financial support for $5 million of which $1.5 million was funded in prior years. This amount was recorded as an additional investment in MDC. The letter was necessary for regulatory purposes in order to guarantee additional capital infusion to its California dental subsidiary as needed. At this time, MDC is not expected to further draw on the remaining $3.5 million as the subsidiary has $5 million more capital than is required by California.

As of December 31, 2017 and 2016, the Company had no commitments to make capital contributions to its' subsidiaries.

**Settlement of Intercompany Transactions:**

In accordance with NAIC SAP, all transactions between related parties are required to have a written agreement that provides for a timely settlement of amounts owed, including a specific due date. Amounts over ninety days due are to be non-admitted along with any uncollected receivable from a related party that is not part of a written agreement. The Company has determined that written agreements are in place for all intercompany transactions and that these written agreements contain specific due dates. As of December 31, 2017, there was no intercompany receivable that was more than 90 days past due.

### 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:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at January 1 | $ 3,788 | $ 3,574 |
| Incurred related to: | | |
| Current year | 2,349 | 2,283 |
| Prior years | (146) | (90) |
| Affiliated reinsurance | 87 | 106 |
| Total incurred | 2,290 | 2,299 |
| Paid related to: | | |
| Current year | 1,531 | 1,526 |
| Prior years | 354 | 332 |
| Affiliated reinsurance | 236 | 227 |
| Total paid | 2,121 | 2,085 |
| Balance of unpaid claims and claim reserves, net of reinsurance recoverable, at December 31 | $ 3,957 | $ 3,788 |

The affiliated reinsurance for the years ended December 31, 2017 and December 31, 2016 is primarily due to an intercompany reinsurance agreement between the Company and BLICOA effective January 1, 2013.

The amount of incurred claims related to prior years was a reduction $146 million and $90 million for the years ended December 31, 2017 and December 31, 2016, respectively, primarily due to favorable claim experience on the Company's long-term disability reserves, driven by favorable development of both the reported and unreported claim reserves.

**Loss / Claim Adjustment Expenses:**
The balance in the liability for unpaid accident and health claim adjustment expenses was $84 million and $79 million as of December 31, 2017 and December 31, 2016, respectively. The Company incurred $55 million and paid $50 million of claims adjustment expenses in 2017 of which $15 million of the paid amount was attributable to insured or covered events of prior years. The Company did not increase or decrease the provision for insured events of prior years. Estimated anticipated salvage and subrogation related to the liability for unpaid claims / losses is not material and therefore does not reduce the liability.

The liability for unpaid accident and health claims and claim adjustment expenses represents the Company's best estimate with a margin; however, there may be future adjustments to this estimate and related assumptions. Such adjustments, reflecting any variety of new and adverse trends, could possibly be significant and result in increase in liabilities. As of December 31, 2017, and 2016, the Company had no significant changes in methodologies and assumptions used in calculating the liability. The Company updates its experience study annually for recent company claim experience used to set the liability for unpaid claims.

### NOTE 13 – ASO PLANS

The net gain from operations from ASO uninsured plans and the uninsured portion of partially insured plans was as follows during the years ended December 31, 2017 and December 31, 2016:

| | 2017 | | |
|---|---|---|---|
| | ASO Uninsured Plans | Uninsured Portion of Partially Insured Plans | Total ASO |
| | | (In millions) | |
| Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses | $ 23.3 | $ - | $ 23.3 |
| Total net other income or expenses (including interest paid to or received from plans) | 8.2 | - | 8.2 |
| Net gain from operations | 15.1 | - | 15.1 |
| Total claim payment volume | 519 | - | 519 |

| | 2016 | | |
|---|---|---|---|
| | ASO Uninsured Plans | Uninsured Portion of Partially Insured Plans | Total ASO |
| | | (In millions) | |
| Net reimbursement for administrative expenses (including administrative fees) in excess of actual expenses | $ 4.4 | $ - | $ 4.4 |
| Total net other income or expenses (including interest paid to or received from plans) | 1.5 | - | 1.5 |
| Net gain from operations | 2.9 | - | 2.9 |
| Total claim payment volume | 488 | - | 488 |

**NOTE 14 – LEASES**

**New York Home Office Building:**
In June 1998, the Company executed a 21-year lease for its New York home office facility. A portion of the property is subleased to tenants under lease terms expiring through 2019. The lease is classified as operating. Rental expense for the property was $21 million for the year ended December 31, 2017 and $21 million for the year ended December 31, 2016. Sublease income was $9 million for the year ended December 31, 2017 and $9 million for the year ended December 31, 2016.

On January 9, 2017, the Company exercised its purchase option on the building. If the terms contained in the purchase option agreement are met the Company will be required to pay the $147 million purchase price to the seller on September 30, 2019. During 2017, the Company entered into an agreement to sell the building which is expected to close in late 2019 and is not expected to result in a loss.

The following is a schedule by year of the minimum rental payments due under the lease:

| | | (In millions) |
|---|---|---|
| Year ending December 31, | | |
| 2018 | $ | 21 |
| 2019 | | 16 |
| Total | $ | 37 |

The minimum aggregate sublease income is as follows:

| | | (In millions) |
|---|---|---|
| Year ending December 31, | | |
| 2018 | $ | 9 |
| 2019 | | 7 |
| Total | $ | 16 |

### NOTE 14 – LEASES (CONTINUED)

**Other Leases:**
The Company has additional lease agreements that are operating leases principally for the rental of real estate. Rental expense for these properties was $22 million for year ended December 31, 2017 and $20 million for the year ended December 31, 2016.

The Company's major office facility leases are primarily used for administrative and business support operations are as follows:

- On September 13, 2017, the Company signed a seventeen-year five month lease agreement for its New York home office facility. The Company expects to begin using the building in January 2019 as a replacement of the current New York home office facility. The Company is obligated to pay approximately $15 million in annual base rent plus operating expenses and taxes.
- On March 8, 2017, the Company signed a fifteen-year lease agreement for its New Jersey home office facility. The Company expects to begin using the building in quarter one of 2018 and is obligated to pay approximately $3 million in annual base rent plus operating expenses and taxes.
- On August 11, 2016, the Company signed a ten-year lease agreement for its Spokane home office facility. The Company began using the building in March.

The following is a schedule by year of the minimum rental payments due under the lease:

| | | (In millions) |
|---|---|---|
| Year ending December 31, | | |
| 2018 | $ | 23 |
| 2019 | | 36 |
| 2020 | | 34 |
| 2021 | | 32 |
| 2022 - and Thereafter | | 30 |
| Total | $ | 155 |

The minimum aggregate sublease income is as follows:

| | | (In millions) |
|---|---|---|
| Year ending December 31, | | |
| 2018 | $ | 6 |
| 2019 | | 6 |
| 2020 | | 6 |
| 2021 | | 5 |
| 2022 - and Thereafter | | 4 |
| Total | $ | 27 |

The Company guarantees the leases for some of its agents. The fair value of the guarantees as of December 31, 2017 is estimated to be $1 million. The remaining lease obligations that are guaranteed as of December 31, 2017 is $22 million.

### NOTE 15 – COMMITMENTS

Commitments to fund real estate, private equities, mortgage loans, and private placements in the normal course of business totaled $1,393 million and $1,416 million as of December 31, 2017 and December 31, 2016, respectively.

### NOTE 16 – LITIGATION

The Company is engaged in various legal actions, in the ordinary course of business, arising out of its insurance, broker-dealer and investment operations. In the opinion of management, any losses together with the ultimate liability resulting from such actions would not have a material adverse effect on the financial position of the Company.

### NOTE 17 – LINES OF CREDIT

The Company has $75 million in unsecured credit available. The interest rate on these lines is calculated on a base rate such as the bank's Prime rate plus a spread which varies from 0 - 125bps depending on the bank, or LIBOR plus a spread which varies from 75 - 125bps depending on the bank. The Company did not use the lines of credit during 2017 or 2016 and had $0 outstanding liability at December 31, 2017 and December 31, 2016.

### NOTE 18 – POLICYHOLDERS' SURPLUS

There were no special contingency reserves included in policyholder's surplus at December 31, 2017 or December 31, 2016. The Company holds other reserves totaling $46 million at December 31, 2017 and $4 million at December 31, 2016 as required by New York State law for aviation business and Arkansas permanent surplus requirements. Surplus at December 31, 2017 and December 31, 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Accumulated earnings | $ 7,921 | $ 7,676 |
| Unrealized loss - common stock | (298) | (309) |
| Asset valuation reserve | (829) | (810) |
| Nonadmitted asset values | (156) | (389) |
| Total unassigned surplus | 6,638 | 6,168 |
| State required segregated surplus | 46 | 4 |
| Surplus | $ 6,684 | $ 6,172 |

### 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:

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Statutory net income | $ 423 | $ 368 |
| Adjustments to GAAP basis: | | |
| Realized capital gains | 328 | 257 |
| Capitalization of deferred policy acquisition costs | 64 | 61 |
| Future policy benefits | (1,131) | (1,080) |
| Elimination of IMR amortization | (99) | (122) |
| Establishment of deferred federal income taxes | 404 | (1) |
| Service fees | 1,131 | 1,086 |
| Policyholder dividends | 34 | 5 |
| Elimination of interest on affiliate reinsurance | (146) | (140) |
| Other | (101) | 49 |
| Consolidated GAAP income | $ 907 | $ 483 |

| | 2017 | 2016 |
|---|---|---|
| | (In millions) | |
| Statutory surplus | $ 6,684 | $ 6,172 |
| Adjustments to GAAP basis: | | |
| Capitalization of deferred policy acquisition costs | 3,442 | 3,817 |
| Deferred software costs | 22 | 37 |
| Future policy benefits | (7,835) | (7,342) |
| Elimination of IMR | 531 | 464 |
| Elimination of AVR | 829 | 810 |
| Establishment of additional deferred federal income taxes | (1,206) | (1,240) |
| Policyholder dividends | 435 | 401 |
| Notes payable | (1,977) | (1,210) |
| Unrealized gains on investments and GAAP adjustments of affiliates | 11,203 | 8,714 |
| Consolidated GAAP equity | $ 12,128 | $ 10,623 |

### NOTE 20 – SURPLUS NOTE

On October 6, 2009, the Company issued Surplus Notes ("2009 Notes") with a principal balance of $400 million, bearing interest at 7.375%, and a maturity date of September 30, 2039. Proceeds from the issuance of the 2009 Notes were $392.4 million, net of discounts and fees. The 2009 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and will be administered by The Bank of New York Mellon as fiscal agent. Interest on these 2009 Notes is scheduled to be paid semiannually on March 31 and September 30 of each year. The 2009 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2009 Notes are not part of the legal liabilities of the Company. The 2009 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2009 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the "make-whole" redemption price equal to the greater of the principal amount of the 2009 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2009 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 50 basis points. On December 28, 2017 and January 9, 2018, the Company redeemed 2009 Notes with a principal balance of $166.9 million and a carrying value of $165.7 million as part of an exchange transaction (see paragraph regarding the exchange transaction below). The Company paid $33 million in interest for the years ended December 31, 2017 and $30 million in 2016, respectively.

On June 19, 2014 the Company issued Surplus Notes ("2014 Notes") with a principal balance of $450 million, bearing interest at 4.875%, and a maturity date of June 19, 2064. Proceeds from the issuance of the 2014 Notes were $444.6 million, net of discounts and fees. The 2014 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and will be administered by The Bank of New York Mellon as fiscal agent. Interest on these 2014 Notes is scheduled to be paid semiannually on June 19 and December 19 of each year. The 2014 Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the 2014 Notes are not part of the legal liabilities of the Company. The 2014 Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds that the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 2014 Notes may be redeemed at the option of the Company at any time (in whole or in part) at the "make-whole" redemption price equal to the greater of the principal amount of the 2014 Notes to be redeemed, or the sum of the present value of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the 2014 Notes are to be redeemed, discounted to the redemption date on a semi-annual basis at the adjusted treasury rate plus 25 basis points. The Company paid $22 million in interest for the years ended December 31, 2017 and 2016, respectively.

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

### NOTE 20 – SURPLUS NOTE (CONTINUED)

The Company completed an exchange transaction in which it issued additional 2017 Notes in exchange for redeemed 2009 Notes. They was settled predominately on December 27, 2017 with a minimal amount settling on January 8, 2018. The 2009 Notes had a principal balance of $166.9 million ($165.7 million carrying value) and the additional 2017 Notes had a principal balance of $229.3 million ($170.5 million carrying value). Of the $63.6 million discount at the time of the exchange, $4.8 million pertaining to inducement for note holders to exchange their notes, was recorded as expense on the transaction date along with an increase to the carrying value of 2017 Notes. The remaining $58.8 million will be charged to the Statutory Basis Statements of Operations over the life of the 2017 Notes.

### NOTE 21 – UNCLAIMED PROPERTY

The Company holds reserves for potential liability totaling $7 million at December 31, 2017 and $12 million at December 31, 2016, respectively. The Company has recorded paid claims of $3 million in 2017 and $0 million in 2016.

### NOTE 22 – AFFORDABLE CARE ACT FEE

The health insurance industry assessment mandated by the Patient Protection and Affordable Care Act of 2010 was levied on health insurers beginning in 2014 based on a ratio of an insurer's net health insurance premiums written for the previous calendar year compared to the total premiums written by U.S. health insurance industry for that year. On January 1, 2018, the Company will record a liability in the amount of $42 million for estimated fee to be paid in September 2018. The estimated fee is based on $2,106 million of dental and vision premiums written in 2017. The Company's Total Adjusted Capital on December 31, 2017 was $8,044 million and the Authorized Control Level reported on its December 31, 2017 RBC was $709 million. After adjusting for $42 million recorded in special surplus that pertains to the estimated 2018 fee the Company's Total Adjusted Capital was $8,002 million and its RBC Authorized Control Level was $709 million. An RBC action level would not have been triggered had the fee for 2018 been reported as of December 31, 2017.

The Consolidated Appropriations Act, 2016 imposed a moratorium on the health insurance industry assessment mandated by the Affordable Care Act for the 2017 calendar year. Therefore there were no health insurance provider fees paid in 2017 and no liability was established.

### NOTE 23 – SUBSEQUENT EVENTS

The Company considers events occurring after the balance sheet date but prior to February 27, 2018, the issuance of the financial statements to be subsequent events requiring disclosure. There were no subsequent events for the period ended December 31, 2017.

**Guardian Life Insurance Company of America**
**Annual Statement for the Year Ended December 31, 2017**
**Schedule 1 - Selected Financial Data**

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

| | | 2017 Annual Statement References |
|---|---|---|
| **Investment Income Earned** | | Exhibit of Net Investment Income |
| Government Bonds | $ 50,594,566 | |
| Bonds Exempt From US Tax | | |
| Other Bonds (unaffiliated) | 1,560,400,863 | |
| Bonds of Affiliates | | |
| Preferred Stocks (unaffiliated) | | |
| Preferred Stocks of Affiliates | | |
| Common Stocks (unaffiliated) | 24,165,460 | |
| Common Stocks of Affiliates | 46,561,675 | |
| Mortgages Loans | 166,157,174 | |
| Real Estate | 68,979,212 | |
| Contract Loans | 253,409,506 | |
| Cash/Short-term Investments | 10,263,142 | |
| Other Invested Assets | | |
| Derivative Instruments | 161,889,175 | |
| Aggregate Write-Ins for Investment Income | (11,486,758) | |
| Gross Investment Income | $ 2,330,934,015 | |
| **Real Estate Owned - Book Value less Encumbrances** | $ 345,067,002 | Schedule A - Part 1 |
| **Mortgage Loans - Book Value:** | | |
| Farm Mortgages | $ - | Schedule B - Part 1 |
| Residential Mortgages | - | |
| Commercial Mortgages | 4,000,576,006 | |
| Total Mortgage Loans | $ 4,000,576,006 | |
| **Mortgage Loans by Standing - Book Value:** | | |
| Good Standing | 4,000,576,006 | Schedule B, Part 1 |
| Good Standing with Restructured Terms | - | Schedule B, Part 1 |
| Interest overdue more than 90 days, not in foreclosure | - | Schedule B, Part 1 |
| Foreclosure in Process | - | Schedule B, Part 1 |
| **Other Long Term Assets - Statement Value** | 2,368,508,831 | Schedule BA, Part 1 |
| **Bonds and Stocks of Parents, Subsidiaries and Affiliates - Book Value** | | Schedule D - Summary by Country |
| Bonds | 38,124,689,784 | |
| Preferred Stocks | - | |
| Common Stocks | 1,537,827,041 | |

## Schedule 1 - Selected Financial Data - Continued

| | | 2017 Annual Statement References |
|---|---|---|
| **Bonds and Short Term Investments by Class & Maturity** | | Schedule D, Part 1A Sec 1 |
| **Bonds by Maturity - Statement Value** | | |
| Due within one year or less | $ 1,448,993,968 | |
| Over 1 year through 5 years | 8,317,634,879 | |
| Over 5 years through 10 years | 12,791,918,163 | |
| Over 10 years through 20 years | 4,506,262,890 | |
| Over 20 years | 11,639,736,750 | |
| Total by Maturity | $ 38,704,546,650 | |
| **Bonds by Class - Statement Value** | | |
| Class 1 | $ 22,232,692,691 | |
| Class 2 | 14,685,469,862 | |
| Class 3 | 752,751,004 | |
| Class 4 | 869,002,798 | |
| Class 5 | 163,654,737 | |
| Class 6 | 975,558 | |
| Total by Class | $ 38,704,546,650 | |
| **Total Bonds Publicly Traded** | 26,676,970,920 | |
| **Total Bonds Privately Placed** | 12,027,575,730 | |
| **Preferred Stocks - Statement Value** | - | Schedule D, Part 2, Sec. 1 |
| **Common Stocks - Market Value** | 1,537,827,055 | Schedule D, Part 2, Sec. 2 |
| **Short Term Investments - Book Value** | 25,310,000 | Schedule DA, Part 1 |
| **Options, Caps Floors, Collars, Swaps and Forwards** | (29,961,206) | Schedule DB, Part A, |
| **Futures Contracts** | 7,795,385 | Schedule DB, Part B, |
| **Cash on Deposit** | (26,348,883) | Schedule E, Part 1 |
| **Life Insurance In Force** | | Exhibit of Life Insurance |
| Industrial | - | |
| Ordinary | 370,963,866 | |
| Credit Life | - | |
| Group Life | 59,637 | |
| **Amount of Accidental Death Insurance In Force Under** | | |
| Ordinary Policies | 1,034,677 | Exhibit of Life Insurance |
| **Life Insurance Policies with Disability Provisions In Force** | | Exhibit of Life Insurance |
| Industrial | - | |
| Ordinary | 199,960,487 | |
| Credit Life | - | |
| Group Life | - | |
| **Supplementary Contracts In Force** | | Exhibit of Number of Policies, |
| Ordinary - Not Involving Life Contingencies | - | Contracts,Certificates,Income Payable, |
| Amount on Deposit | 227,509,779 | Account Values In Force for Supplementary |
| Income Payable | 86,209 | Contracts, Annuities, A&H and Other Policies |
| **Ordinary - Involving Life Contingencies** | | |
| Income Payable | 338 | |

## Schedule 1 - Selected Financial Data - Continued

| | | 2017 Annual Statement References |
|---|---|---|
| Group - Not Involving Life Contingencies | | |
| Amount on Deposit | 44,095,258 | |
| Income Payable | - | |
| Group - Involving Life Contingencies | | |
| Amount on Deposit | - | |
| Income Payable | - | |
| **Annuities - Ordinary** | | Exhibit of Number of Policies, |
| Immediate - Amount of Income Payable | 588,539 | Contracts,Certificates,Income Payable, |
| Deferred - Fully Paid Account Balance | 70,480,187 | Account Values In Force for Supplementary |
| Deferred - Not Fully Paid - Account Balance | 142,461,177 | Contracts, Annuities, A&H and Other Policies |
| **Annuities - Group** | | |
| Amount of Income Payable | 79,643 | Exhibit of Number of Policies, |
| Fully Paid Account Balance | - | Contracts,Certificates,Income Payable, |
| Not Fully Paid - Account Balance | - | Account Values In Force for Supplementary |
| | | Contracts, Annuities, A&H and Other Policies |
| **Accident and Health Insurance - Premiums In Force** | | |
| Ordinary | - | |
| Group | 3,085,350,014 | |
| Credit | - | |
| Other | 505,734,414 | |
| **Deposit Funds and Dividend Accumulations** | | Exhibit of Number of Policies, |
| Deposit Funds - Account Balance | 25,306,757 | Contracts,Certificates,Income Payable, |
| Dividend Accumulations - Account Balance | 99,331,551 | Account Values In Force for Supplementary |
| | | Contracts, Annuities, A&H and Other Policies |
| **Claim Payments 2017** | | Schedule O, Part 1 |
| Group Accident and Health Year - Ended December 31, 2015 | | Section A |
| 2017 | 1,523,992 | |
| 2016 | 1,725,073 | |
| 2015 | 1,673,781 | |
| 2014 | 1,588,682 | |
| 2013 | 1,545,258 | |
| Prior | 2,101,014 | |
| Other Accident & Health | | Section B |
| 2017 | 29,891 | |
| 2016 | 29,691 | |
| 2015 | 31,526 | |
| 2014 | 21,585 | |
| 2013 | 17,494 | |
| Prior | 130,947 | |
| Credit Accident & Health | - | Section C |
| 2017 | - | |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| Prior | - | |

**Schedule 1 - Selected Financial Data - Continued**

| | | 2017 Annual Statement References |
|---|---|---|
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section D |
| 2017 | - | |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| Prior | - | |
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section E |
| 2017 | - | |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| Prior | - | |
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section F |
| 2017 | - | |
| 2016 | - | |
| 2015 | | |
| 2014 | - | |
| 2013 | - | |
| Prior | - | |
| Other Coverages that use developmental methods to calculate Claims Reserves: | | Section G |
| 2017 | - | |
| 2016 | - | |
| 2015 | - | |
| 2014 | - | |
| 2013 | - | |
| Prior | - | |

**The Guardian Life Insurance Company of America**
**Investments of Reporting Entities**
**December 31, 2017**

**Section 2 Investment Risk Interrogatories**

Answer the following interrogatories by stating the applicable U.S dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of the annual statement.
$55,568,820,448

2. Ten largest exposures to a single issuer/borrower/investment.

| | Issuer | Description of Exposure | | Amount | Percentage of Total Admitted Assets |
|---|---|---|---|---|---|
| 2.01 | GUARDIAN INVESTOR SERVICES | STOCK | $ | 823,561,817 | 1.5% |
| 2.02 | FIRST COMMON WEALTH INSURANCE COMPANY | STOCK | $ | 443,456,590 | 0.8% |
| 2.03 | GUARDIAN INS & ANNUITY CO NY, NY | STOCK | $ | 310,222,464 | 0.6% |
| 2.04 | JP MORGAN CHASE | BONDS/STOCK | $ | 261,097,193 | 0.5% |
| 2.05 | ISHARES MSCI EAFE | STOCK | $ | 220,889,121 | 0.4% |
| 2.06 | GOLDMAN SACHS GROUP INC | BONDS/STOCK | $ | 205,027,746 | 0.4% |
| 2.07 | GILEAD SCIENCES | BONDS/STOCK | $ | 201,892,562 | 0.4% |
| 2.08 | AT&T INC | BONDS/STOCK | $ | 199,265,081 | 0.4% |
| 2.09 | BERKSHIRE LIFE INSURANCE CO OF AMERICA | STOCK | $ | 189,096,958 | 0.3% |
| 2.10 | SIMON PROPERTY GROUP | BONDS | $ | 186,745,869 | 0.3% |

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating:

| | Bonds | | Amount | % of Total Admitted Assets | Preferred Stocks | | Amount | % of Total Admitted Assets |
|---|---|---|---|---|---|---|---|---|
| 3.01 | NAIC-1 | $ | 22,232,692,692 | 57.4% | P/RP-1 | $ | - | 0.0% |
| 3.02 | NAIC-2 | $ | 14,685,469,862 | 37.9% | P/RP-2 | $ | | 0.0% |
| 3.03 | NAIC-3 | $ | 752,751,004 | 1.9% | P/RP-3 | $ | | 0.0% |
| 3.04 | NAIC-4 | $ | 869,002,798 | 2.2% | P/RP-4 | $ | | 0.0% |
| 3.05 | NAIC-5 | $ | 163,654,737 | 0.4% | P/RP-5 | $ | | 0.0% |
| 3.06 | NAIC-6 | $ | 975,558 | 0.0% | P/RP-6 | $ | - | 0.0% |

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assts?
Yes [ ] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

| | | | | |
|---|---|---|---|---|
| 4.02 | Total admitted assets held in foreign investments | $ | 7,842,827,286 | 20.3% |
| 4.03 | Foreign-currency-denominated investments | $ | 852,015,647 | 2.2% |
| 4.04 | Insurance liabilities denominated in that same foreign currency | $ | - | 0.0% |

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

| | 1 | 2 |
|---|---|---|
| 5.01 Countries rated NAIC-1 | $ 7,275,941,339 | 18.8% |
| 5.02 Countries rated NAIC-2 | $ 385,877,296 | 1.0% |
| 5.03 Countries rated NAIC-3 or below | $ 181,008,651 | 0.5% |

6. Largest foreign investment exposures to a single country, categorized by NAIC sovereign rating:

| | 1 | 2 |
|---|---|---|
| Countries rated NAIC-1 | | |
| 6.01 Country: UNITED KINGDOM | $ 1,770,675,039 | 4.6% |
| 6.02 Country: AUSTRALIA | $ 1,210,071,991 | 3.1% |
| Countries rated NAIC-2: | | |
| 6.03 Country: MEXICO | $ 311,696,274 | 0.8% |
| 6.04 Country: SPAIN | $ 64,181,022 | 0.2% |
| Countries rated NAIC-3 or below | | |
| 6.05 Country: BAHAMAS | $ 22,000,000 | 0.1% |
| 6.06 Country: TRINIDAD | $ 18,578,833 | 0.0% |

7. Aggregate unhedged foreign currency exposure: $ - 0.0%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

| | 1 | 2 |
|---|---|---|
| 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:

| | 1 | 2 |
|---|---|---|
| Countries rated NAIC-1: | | |
| 9.01 Country: | $ | 0.0% |
| 9.02 Country: | $ | 0.0% |
| Countries rated NAIC-2: | | |
| 9.03 Country: | $ | 0.0% |
| 9.04 Country: | $ | 0.0% |
| Countries rated NAIC-3 or below | | |
| 9.05 Country: | $ - | 0.0% |
| 9.06 Country: | $ - | 0.0% |

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

| | Issuer | NAIC | | 3 | 4 |
|---|---|---|---|---|---|
| 10.01 | SHELL INTERNATIONAL | 1 | $ | 177,418,795 | 0.5% |
| 10.02 | AMERICAN MOVIL | 1 | $ | 137,647,489 | 0.4% |
| 10.03 | GE CAPITAL INTL FUNDING | 1 | $ | 94,138,297 | 0.2% |
| 10.04 | STATOILHYDRO ASA | 1 | $ | 91,420,961 | 0.2% |
| 10.05 | BP CAPITAL MARKETS | 1 | $ | 86,898,573 | 0.2% |
| 10.06 | TRANSCANADA PIPELINES | 1 | $ | 78,465,295 | 0.2% |
| 10.07 | HSBC HOLDINGS | 1 | $ | 78,310,511 | 0.2% |
| 10.08 | SIEMENS FINANCIERINGSMAT | 1 | $ | 73,202,410 | 0.2% |
| 10.09 | COMMONWEALTH BANK | 1 | $ | 73,198,150 | 0.2% |
| 10.10 | TELEFONICA EMISIONES | 2 | $ | 64,181,022 | 0.2% |

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?
Yes [ 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<br>Name of Issuer | | 2 | 3 |
|---|---|---|---|---|
| 13.02 | GUARDIAN INVESTOR SERVICES | $ | 823,561,817 | 2.1% |
| 13.03 | FIRST COMMON WEALTH INSURANCE COMPANY | $ | 443,456,590 | 1.1% |
| 13.04 | GUARDIAN INS & ANNUITY CO NY, NY | $ | 310,222,464 | 0.8% |
| 13.05 | ISHARED MSCI EAFE | $ | 220,889,121 | 0.6% |
| 13.06 | BERKSHIRE LIFE INSURANCE CO OF AMERICA | $ | 189,096,958 | 0.5% |
| 13.07 | VICTORY MUTUAL FUNDS | $ | 73,889,308 | 0.2% |
| 13.08 | POWERSHARES | $ | 68,460,290 | 0.2% |
| 13.09 | SPDR GOLD TRUST | $ | 61,471,113 | 0.2% |
| 13.10 | PARK AVENUE LIFE INS COMP | $ | 41,186,135 | 0.1% |
| 13.11 | ISHARES SILVER TRUST | $ | 15,081,895 | 0.0% |

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01. Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?
Yes [X ] No [ ]

If response to 14.01 is yes, responses are not required for the remainder of Interrogatory 14.

| | 1 | | 2 | 3 |
|---|---|---|---|---|
| 14.02 | Aggregate statement value of investments held in nonaffiliated, privately placed equities Largest three investments held in nonaffiliated, privately placed equities: | $ | - | 0.0% |
| 14.03 | | $ | - | 0.0% |
| 14.04 | | $ | - | 0.0% |
| 14.05 | | $ | - | 0.0% |

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?
Yes [X ] No [ ]

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

| | 1 | | 2 | 3 |
|---|---|---|---|---|
| 15.02 | | $ | | 0.0% |
| 15.03 | | $ | | 0.0% |
| 15.04 | | $ | | 0.0% |
| 15.05 | | $ | | 0.0% |

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?
Yes [ ] No [X]

If response to 16.01 is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

| | Type (Residential, Commercial, Agriculature) | | 2 | 3 |
|---|---|---|---|---|
| 16.02 | COMMERCIAL | $ | 195,000,000 | 0.2% |
| 16.03 | COMMERCIAL | $ | 127,625,000 | 0.2% |
| 16.04 | COMMERCIAL | $ | 116,885,000 | 0.2% |
| 16.05 | COMMERCIAL | $ | 113,363,464 | 0.2% |
| 16.06 | COMMERCIAL | $ | 112,498,309 | 0.1% |
| 16.07 | COMMERCIAL | $ | 111,300,000 | 0.1% |
| 16.08 | COMMERCIAL | $ | 110,627,860 | 0.1% |
| 16.09 | COMMERCIAL | $ | 98,504,636 | 0.1% |
| 16.10 | COMMERCIAL | $ | 93,077,172 | 0.1% |
| 16.11 | COMMERCIAL | $ | 85,618,153 | 0.1% |

Amount and percentages of the reporting entity's total admitted assets held in the following categories of mortgage loans:

| | | | Loans | |
|---|---|---|---|---|
| 16.12 | Construction Loans | $ | 82,568,916 | 0.3% |
| 16.13 | Mortgage loans over 90 days past due | $ | - | 0.0% |
| 16.14 | Mortgage loans in the process of foreclosure | $ | - | 0.0% |
| 16.15 | Mortgage loans foreclosed | $ | - | 0.0% |
| 16.16 | Restructured mortgage loans | $ | - | 0.0% |

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as

| | | Residential | | | Commercial | | | Agriculature | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Loan-to-Value | | 1 | 2 | | 3 | 4 | | 5 | 6 |
| 17.01 | above 95% | $ | - | 0.0% | $ | | 0.0% | $ | - | 0.0% |
| 17.02 | 91% to 95% | $ | - | 0.0% | $ | | 0.1% | $ | - | 0.0% |
| 17.03 | 81% to 90% | $ | - | 0.0% | $ | 40,386,223 | 0.0% | $ | - | 0.0% |
| 17.04 | 71% to 80% | $ | - | 0.0% | $ | 56,722,796 | 0.1% | $ | - | 0.0% |
| 17.05 | below 70% | $ | - | 0.0% | $ | 3,903,466,987 | 6.8% | $ | - | 0.0% |

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No [ ]

If response to 18.01. is yes, responses are not required for the remainder of Interrogatory 18

Largest five investments in any one parcel or group of contiguous parcels of real estate.

| | Description<br>1 | | 2 | 3 |
|---|---|---|---|---|
| 18.02 | | $ | | 0.0% |
| 18.03 | | $ | | 0.0% |
| 18.04 | | $ | | 0.0% |
| 18.05 | | $ | | 0.0% |
| 18.06 | | $ | | 0.0% |

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans: 0 0.00%

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets?
Yes [X] No [ ]

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

| | 1 | 2 | 3 |
|---|---|---|---|
| 19.02 | Aggregate statement value of investments held in mezzanine real estate loadns: | | |
| | Largest three investments held in mezzanine real $ | $ - | 0.0% |
| 19.03 | | $ - | 0.0% |
| 19.04 | | $ - | 0.0% |
| 19.05 | | $ - | 0.0% |

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

| | | At Year-end | | At End of Each Quarter 1st Qtr | 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 1st Qtr | 2nd Qtr | 3rd Qtr |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 22.01 Hedging | $ 12,540,911 | 0.0% | $ 6,976,680 | $ 10,440,493 | $ 12,188,113 |
| 22.02 Income generation | $ - | 0.0% | $ - | $ - | $ |
| 22.03 Replications | $ - | 0.0% | $ - | $ - | $ - |
| 22.04 Other | $ | 0.0% | $ - | $ - | $ - |

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for future contracts:

| | At Year-end | | At End of Each Quarter 1st Quarter | 2nd Quarter | 3rd Quarter |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| 23.01 Hedging | $ 8,159,950 | 0.0% | $ 9,988,750 | $ 7,772,850 | $ 7,795,500 |
| 23.02 Income generation | $ - | 0.0% | $ - | $ - | $ - |
| 23.03 Replications | $ - | 0.0% | $ - | $ - | $ - |
| 23.04 Other | $ - | 0.0% | $ - | $ - | $ - |

**THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA**
**As of December 31, 2017**

**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 Lending Reinvested Collateral Amount | Total (Col. 3 + 4) Amount | Percentage |
| 1. Bonds: | | | | | | |
| 1.1 US Treasury Securities | $ 1,597,534,014 | 3.405% | $ 1,597,534,014 | | $ 1,597,534,014 | 3.405% |
| 1.2 US Government agency and corporate obligations (excluding mortgage-backed securities): | | | | | | |
| 1.21 Issued by US Government Agencies | 3,678,572 | 0.008% | 3,678,572 | | 3,678,572 | 0.008% |
| 1.22 Issued by US Government-sponsored agencies | - | 0.00% | - | | - | 0.000% |
| 1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities) | 36,856,331 | 0.079% | 36,856,331 | | 36,856,331 | 0.079% |
| 1.4 Securities issued by states, territories and possessions and political subdivisions in the US: | | | | | | |
| 1.41 States, territories and possessions general obligations | 390,426,205 | 0.832% | 390,426,205 | | 390,426,205 | 0.832% |
| 1.42 Political subdivisions of states, territories and possessions political subdivisions | | 0.00% | | | | |
| general obligations | 229,725,568 | 0.490% | 229,725,568 | | 229,725,568 | 0.490% |
| 1.43 Revenue and assessment obligations | 1,619,718,445 | 3.452% | 1,619,718,445 | | 1,619,718,445 | 3.452% |
| 1.44 Industrial development and similar obligations | 6,089,325 | 0.013% | 6,089,325 | | 6,089,325 | 0.013% |
| 1.5 Mortgage-backed securities (includes residential and commercial MBS): | | | | | | |
| 1.51 Pass-through securities: | | | | | | |
| 1.511 Issued or guaranteed by GNMA | | 0.00% | | | - | 0.00% |
| 1.512 Issued or guaranteed by FNMA and FHLMC | | 0.00% | | | - | 0.00% |
| 1.513 All other | - | 0.000% | - | | - | 0.000% |
| 1.52 CMOs and REMICs: | | | | | | |
| 1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA | | 0.000% | | | - | 0.000% |
| 1.522 Issued by non-U.S. Government issuers and collaterized by mortgage- | | | | | - | |
| backed securities issued or guaranteed by agencies shown in Line 1.521 | 16,757,832 | 0.036% | 16,757,832 | | 16,757,832 | 0.036% |
| 1.523 All other | 1,456,799,939 | 3.105% | 1,456,799,939 | | 1,456,799,939 | 3.105% |
| 2. Other debt and other fixed income securities (excluding short term): | | | | | - | |
| 2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities) | 23,082,259,525 | 49.193% | 23,082,259,525 | | 23,082,259,525 | 49.197% |
| 2.2 Unaffiliated non-U.S. securities (including Canada) | 7,007,505,012 | 14.935% | 7,007,505,012 | | 7,007,505,012 | 14.936% |
| 2.3 Affiliated securities | 1,043,744,923 | 2.224% | 1,043,744,923 | | 1,043,744,923 | 2.225% |
| 3. Equity interests: | | | | | | |
| 3.1 Investments in mutual funds | 143,257,585 | 0.305% | 143,257,585 | | 143,257,585 | 0.305% |
| 3.2 Preferred stocks: | | | | | | |
| 3.21 Affiliated | - | 0.000% | - | | - | 0.00% |
| 3.22 Unaffiliated | 40,486,681 | 0.086% | 40,486,681 | | 40,486,681 | 0.086% |
| 3.3 Publicly traded equity securities (excluding preferred stocks): | | | | | | |
| 3.31 Affiliated | - | 0.000% | - | | - | 0.000% |
| 3.32 Unaffiliated | 294,659,581 | 0.628% | 294,659,581 | | 294,659,581 | 0.628% |
| 3.4 Other equity securities: | | | | | - | |
| 3.41 Affiliated | - | 0.00% | - | | - | 0.00% |
| 3.42 Unaffiliated | | 0.000% | | | - | 0.000% |
| 3.5 Other equity interests including tangible personal property under lease: | | | | | | |
| 3.51 Affiliated | - | 0.000% | - | | - | 0.000% |
| 3.52 Unaffiliated | - | 0.000% | - | | - | 0.000% |
| 4. Mortgage loans: | | | | | | |
| 4.1 Construction and land development | 93,317,998 | 0.199% | 93,317,998 | | 93,317,998 | 0.199% |
| 4.2 Agricultural | - | 0.000% | - | | - | 0.000% |
| 4.3 Single family residential properties | - | 0.000% | - | | - | 0.00% |
| 4.4 Multifamily residential properties | - | 0.000% | - | | - | 0.000% |
| 4.5 Commercial loans | 3,378,243,690 | 7.200% | 3,378,243,690 | | 3,378,243,690 | 7.200% |
| 4.6 Mezzanine real estate loans | - | 0.00% | - | | - | 0.00% |
| 5. Real Estate Investments: | | | | | | |
| 5.1 Property occupied by company | 2,965,563 | 0.006% | 2,965,563 | | 2,965,563 | 0.006% |
| 5.2 Property held for production of income (includes $0 of property acquired | | | | | - | |
| in satisfaction of debt) | 360,971,455 | 0.769% | 360,971,455 | | 360,971,455 | 0.769% |
| 5.3 Property held for sale ($0 including property acquired in the satisfaction of debt) | 10,263,514 | 0.022% | 10,263,514 | | 10,263,514 | 0.022% |
| 6. Contract loans | 3,405,117,738 | 7.257% | 3,405,117,738 | | 3,405,117,738 | 7.258% |
| 7. Deriatives | 41,050,789 | 0.087% | 41,050,789 | | 41,050,789 | 0.087% |
| 8. Receivables for securities | 26,819,916 | 0.057% | 26,819,916 | | 26,819,916 | 0.057% |
| 9. Securities Lending (Line 10, Asset Page reinvested collateral) | - | 0.000% | - | | - | |
| 10. Cash and short-term investments | 821,842,798 | 1.752% | 821,842,798 | | 821,842,798 | 1.752% |
| 11. Other invested assets | 1,811,428,489 | 3.861% | 1,808,240,510 | | 1,808,240,510 | 3.854% |
| **12. Total Invested Assets** | $46,921,521,488 | 100.00% | $46,918,333,509 | | $46,918,333,509 | 100.00% |

* Gross Investment Holdings as valued in compliance with NAIC Accounting Practices & Procedures Manual

GUARDIAN®

**The Guardian Life Insurance Company of America**
Midwest Regional Office
PO Box 8070
Appleton WI 54912-8070

# Application for Conversion of Group Life Insurance

*Please Print*

Proposed Insured: (First, MI, Last) ☐ M ☐ F | Social Security #:

Address: (Street, City, State, Zip) | Phone #:

Date of Birth: | Age Nearest Birthday at Issue Date of Individual Policy: | Marital Status: ☐ Single ☐ Married ☐ Divorced ☐ Widowed ☐ Separated

What is new or proposed occupation? (Exact duties)

Are you currently eligible or will you become eligible for any other group life insurance benefits within the ______ (#) days after your insurance ends under the Group Policy? ☐ Yes ☐ No

Address to which Premium Notices are to be sent: (if not same as above) (Street, City, State, Zip)

Beneficiary to receive death benefit (unless subsequently changed as provided in the policy)
Name: (First, MI, Last) | Social Security #:

Address: (Street, City, State, Zip) | Phone #:

Date of Birth: | Relationship to Insured

Owner (unless subsequently changed as provided in the policy). The Proposed Insured shall be the Owner unless another Owner is designated below.
Name: (First, MI, Last) | Social Security #:

Address: (Street, City, State, Zip) | Relationship to Proposed Insured:

AUTOMATIC PREMIUM LOANS.
This provision will be effective, in accordance with the terms of the policy, unless this box is checked. If not desired, check box ☐

Has the first premium been paid? ☐ Yes ☐ No State Amount Paid $ ______
*Note: The initial premium must be paid before the policy is issued.*
Have you received Guardian's conditional receipt in exchange? ☐ Yes ☐ No

Amount and plan of insurance desired: Amount $ ______ Plan: ______
(Effective date will be 31 days after Group Insurance is terminated. Proposed Insured is covered during 31 day period under the Group Policy.)

**Premiums Payable:** ☐ Annually ☐ Quarterly ☐ GOM ☐ Semi-Annually
Dividend Option: ☐ Paid in Cash ☐ Reduce Premium ☐ Left at Interest ☐ Paid-Up Additional Insurance

The insurance applied for is a conversion of group life insurance evidenced by:
Social Security # ______ for $ ______ under Group Policy No. ______
Issued to ______
Date Group Insurance Terminated ______
Reason Group Insurance Terminated (Explain):

Remarks:

Amendments and Corrections (For Home Office Use Only)

IT IS UNDERSTOOD AND AGREED: (1) That I have read all the statements and answers in this application, which shall form the basis of the contract of insurance, and declare that they have been correctly recorded. (2) That in no event shall insurance take effect unless the provisions for conversion of insurance contained in the Group Policy have been fully complied with, the full first premium has been paid, and the insurance under the Group Policy has been terminated. (3) That the individual policy or policies to be issued on this application shall not be deemed to be a continuation of the insurance under said Group Policy, but shall be one or more new, separate and independent contracts, and that all their terms and conditions shall be operative at and from their dates of issue. (4) That no agent is authorized to make, alter or modify the terms of this application or any contract issued thereon and any representation made by any agent and not contained herein shall not bind Guardian. (5) Acceptance of any contract(s) issued on the basis of the application shall constitute a ratification and acceptance of any change, correction, addition or amendment noted by Guardian in the "Amendments and Corrections" section above, except that in those jurisdictions where it is required any change in amount, classification, plan of insurance or benefits shall require a written consent signed by the Proposed Insured and by the Applicant if other than the Proposed Insured.

**Any person who, with intent to defraud or knowing that he is facilitating a fraud against an insured, submits an application or files a claim containing a false or deceptive statement is guilty of insurance fraud.**

Signed at ______ on ______
(City and State) (Date)
______
Signature of Proposed Insured

Agency: ______ Code ______
______
Witness other than Beneficiary

______
Signature of Applicant-Owner or Assignee (If other than Proposed Insured)

GG-013338-R (8/14)

## CONDITIONAL RECEIPT FOR ADVANCE PAYMENT OF PREMIUM

NOTE: - This receipt must be executed and given to the applicant in case premium is paid when application is made; otherwise it must not be detached.

Guardian will recognize no other receipt than this bearing the same serial number as this application.

Any check or draft given in settlement is accepted subject to collection.

*Received of* ______

*who has applied to* ***The Guardian Life Insurance Company of America****, for a policy of insurance*

*in the amount of $* ______ *on the* ______ *plan,*

*the sum of* ______ *Dollars ($* ______ *.)*

*being the first* ______ *premium on such policy; said premium being paid in accordance with the conditions of agreement (3), contained in said application. (Copy of agreements on back hereof.)*

*Date* ______ *Signed* ______ *Agent*

**TO THE APPLICANT:**

**If you do not hear from Guardian in relation to your application within thirty days from date of this receipt, write The Guardian Life Insurance Company of America at the address indicated on the front of this form, without delay, stating the facts regarding your application for insurance.**

**IT IS UNDERSTOOD AND AGREED: (1) That I have read all the statements and answers in this application, which shall form the basis of the contract of insurance, and declare that they have been correctly recorded. (2) That in no event shall insurance take effect unless the provisions for conversion of insurance contained in the Group Policy have been fully complied with, the full first premium has been paid, and the insurance under the Group Policy has been terminated. (3) That the individual policy or policies to be issued on this application shall not be deemed to be a continuation of the insurance under said Group policy, but shall be one more new, separate and independent contracts, and that all their terms and conditions shall be operative at and from their dates of issue. (4) That no agent is authorized to make, alter or modify the terms of this application or any contract issued thereon and any representation made by any agent and not contained herein shall not bind Guardian. (5) Acceptance of any contract(s) issued on the basis of the application shall constitute a ratification and acceptance of any change, correction, addition or amendment noted by Guardian in the "Amendments and Corrections" section above, except that in those jurisdictions where it is required any change in amount, classification, plan of insurance or benefits shall require a written consent signed by the Proposed Insured and by the Applicant if other than the Proposed Insured.**

TO THE ASSIGNEE (if applicable):

Application for conversion is being made at the request of ______________________________, assignee of all right, title, interest, benefits and privileges of ______________________________ under the Group Policy.

By virtue of said assignment dated ______________________________, the assignee ______________________________ shall be owner of any policy issued as a conversion on the life of ______________________________

CHECKED BY GROUP INS. DEPT.

POLICY NO. ☐
EMPLOYER ☐
CERTIFICATE NO. ☐
TERMINATION DATE ☐
AMOUNT ☐
COPY SENT AGENCY ☐

AGENCY__________________ S.A.______________

EFFECTIVE DATE OF
INDIVIDUAL POLICY ______________________

DATE SENT NEW BUSINESS ______________________

BY ______________________

# J.P.Morgan

**Barbara Snyder**
Vice President

October 10, 2017

The Guardian Life Insurance Company of America
7 Hanover Square, H-26-H
New York, NY 10004

Re: The Guardian Life Insurance Company of America

To Whom It May Concern:

This letter is being delivered to you to provide information on the Company's banking relationship with JPMorgan Chase Bank, N.A. (the "Bank"). We can hereby confirm that the Company has maintained accounts at the Bank since 1979 and has operated the accounts in a satisfactory manner. The Bank has extended the Company credit from time to time on an unsecured basis, with the high amount in the eight figures. The Company has performed in accordance with the credit documentation.

Please be advised that this letter refers only to facts as they exist as of the date of this letter and the Bank shall have no duty or obligation to inform the addressee hereof of any future changes in such facts. This letter is solely for the benefit of the addressee hereof for the referenced purpose, and may not be relied on by any other person or for any other purpose.

Sincerely,

Barbara L. Snyder

**270 Park Avenue, Floor 41**
**New York, NY 10017**
**Telephone: (212) 622 3444**
**J.P. Morgan Bank Chase Bank, N.A.**

## DEPARTMENT OF INSURANCE

# CERTIFICATE OF AUTHORITY

**THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA**

**DOMICILED IN THE STATE OF NEW YORK**

IS HEREBY AUTHORIZED AND LICENSED TO TRANSACT THE BUSINESS OF INSURANCE IN THE STATE OF NEBRASKA AS DESCRIBED BY THE FOLLOWING SUB-SECTION(S) OF SECTION 44-201 OF THE STATUTES OF NEBRASKA:

01 Life Insurance
04 Sickness and Accident Insurance

| 148007 | May 1, 2018 | April 30, 2019 |
| --- | --- | --- |
| NEBRASKA IDENTIFICATION NUMBER | DATE ISSUED | DATE EXPIRES |

**SIGNED AT LINCOLN, NEBRASKA**

Bruce R. Ramge
DIRECTOR OF INSURANCE

# Conversion Feature Overview

All group Basic and Voluntary Life plans include the conversion feature for employees and dependents. An employee may convert the entire amount of his or her group coverage (or a lesser amount) to individual coverage when such employee's group insurance is discontinued because he has terminated employment or becomes part of an ineligible class. He may convert to any policy issued by the company except term insurance. An interim term Conversion of 12 months is available to employees who may be a candidate for Waiver of Premium, and wish to continue coverage that otherwise would have ended, in order to "bridge" them to potential approval for Waiver of Premium. The premium for the converted policy is based on (a) standard or sub-standard risk and rate class, and (b) age on the converted policy's effective date. The converted policy starts at the end of the period allowed for conversion. Contractually, we require an individual to file an application for conversion within 31 days. However, we do allow for administrative exceptions up to 90 days.

If conversion is due to plan termination, employees may only convert when they have five years on the plan (including credit for continuous coverage on transfer of coverage, from one group carrier to another), and the conversion is limited to the lesser of the amount they had on the plan, minus any Group Life coverage for which they become eligible in the 31 days after plan termination, or a dollar amount (specific to the state, typically is $10,000 or less.) This practice is standard in the industry.

Conversion charges are calculated on a standard or sub-standard risk class basis.

# Planholder Billing Options and Proecdures

As part of our commitment to providing the State with quality service, we offer several ways to view and receive bills. We can provide them in electronic or paper format with a column for each benefit covered and organized according to codes, locations, departments or divisions (on one statement or separately). We provide one consolidated bill for all coverages. Bills are payable upon receipt and can be accessed online for up to 14 months. Payment may be made by check, electronic funds transfer (via ACH transaction or wire transfer) or online via www.guardiananytime.com.

Every employer has unique administrative needs, so we offer a choice as to how we can handle billing for the State:

- **List-billed:** the State alerts Guardian on a daily, weekly or monthly basis of any employee additions or terminations. We then process the changes and produce a monthly bill approximately 10 to 15 days prior to the due date. the State typically receives the bill by the 23rd at which time payment is remitted.
- **Self-Administration:** the State controls the billing, determines the date of the invoice, and submits payment to Guardian on a monthly basis with an accompanying paper or electronic list of current employees.
    - Life benefits give the State the option to submit changes at the time of claim or to maintain eligibility in our mainframe by submitting changes as they occur electronically via EDI, online or census file.

**IMPORTANT INFORMATION FOR EMPLOYERS**

If an employer has a question about the insurance coverages provided by this plan, he may contact the places below:

*****

**SHARON MARK J , Insurance Agent**
101 AGENT WAY
FANWOOD NJ 07023

*****

If we at The Guardian Life Insurance Company fail to provide you with reasonable and adequate service, you should feel free to contact:

**Arkansas Insurance Department**
Consumer Services Division
1200 West 3
Little Rock, Arkansas 72201
Telephone: (800) 282-9134

GP-1-R-DISC-AR-88 P120.0004-R

**The Guardian** Life Insurance Company of America
A Mutual Life Insurance Company
7 Hanover Square, New York, New York 10004
Incorporated 1860 by the Laws of the State of New York

## EMPLOYER RIDER

**Group Plan Number:** G-00396174-CC

**Policyholder:** Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund

**Participating Employer:** SAMPLE LIFE CONTRACT MLI/ADD/MOL/WAIVER 65 LIFEASSIST AGE 65/ACCELERATED/PORTABILITY/FAMILYADO

**Rider Effective Date:** March 1, 2002

It is hereby agreed that the provisions which follow are added to the group policy for the participating employer named above:

**Premium Payments:** The first premium payment for this plan is due on the Rider Effective Date. Further payments are due on the 1st of each month thereafter, as long as this plan stays in effect.

There is a 31 day grace period for all payments except the first. We must receive all payments within 31 days of the applicable premium due date. If we don't, this plan will automatically end at the end of the grace period. You will owe us all unpaid premiums for the period this plan was in force.

**Term of Rider - Renewal Privilege:** This rider is issued for an initial term which starts on the Rider Effective Date and ends on the day before the first policy anniversary date.

You can renew this rider for further one year terms on each plan anniversary, subject to all of the terms of the group policy and this rider. We have the right to cancel this rider, or any coverage hereunder, on the policy anniversary date or premium due date, if, on that date, either:

- less than ten employees are insured under this rider; or
- with respect to contributory coverages, less than 75% of those employees who are eligible for insurance under this rider are insured.

If this rider also provides dependent coverage on a contributory basis, we can cancel that coverage on any policy anniversary date or premium due date, if, on that date, less than 75% of those employees eligible for such dependent coverage are insured.

For non-contributory plans, 100% of the employees eligible for insurance, must be enrolled for coverage. If dependent coverage is provided, all eligible dependents must be enrolled. We have the right to cancel this rider, or any coverage hereunder on the policy anniversary date or the premium due date, if, on that date, the number of employees or dependents, if dependent coverage is provided, falls below 100% of those eligible for coverage.

This rider and all coverages hereunder will also end if you stop engaging in the business in which you were engaged on the Rider Effective Date. You must notify us in writing when the nature of your business activity changes or when you sell that business.

If we give you 31 days advance written notice, we may, as of the first day of any policy month, change the premium rates we charge for this plan.

You can cancel this plan at any time by giving us 31 days advance written notice. This notice must be sent to our Home Office. And you will owe us all unpaid premiums for the period this plan is in force.

**Associated Companies:** If you ask us in writing to include an associated company under this plan, and we give you our written approval, we'll treat employees of that company like your employees. Our written approval will include the starting date of the company's coverage by this plan. Each eligible employee of that company must still meet all of the terms and conditions of this plan before he'll be insured.

You must notify us in writing when a company stops being associated with you. On the date a company stops being an associated company, this plan will end for all of that company's employees, except those employed by you or another covered associated company as active eligible employees on such date.

## Definitions

**Associated company** means a corporation or other business entity affiliated with the employer through common ownership of stock or assets.

**Employee** means a person who works for the employer at the employer's place of business, and whose income is reported for tax purposes using a W-2 form.

**Plan** means the Guardian group plan purchased by you, except in the provision entitled "Coordination of Benefits" where "plan" has a special meaning. See that provision for details.

**We, Us, Our** and **Guardian** mean The Guardian Life Insurance Company of America.

**You** and **Your** mean the employer who purchased this plan.

# SCHEDULE OF INSURANCE AND PREMIUM RATES

This plan's classifications, and the option packages of benefits which are available to covered persons who are members of each classification, are shown below.

## Class Description

***Class 0001*** ALL ELIGIBLE EMPLOYEES

GP-1-SI P130.1566-R

## Option Packages Available

Employees may choose from the benefit packages available to members of their class. The option packages are summarized in "Summary of Option Packages" below.

GP-1-SI P130.1710-R

Members of Class 0001 may choose from benefit option packages A and B.

GP-1-SI P130.1568-R

## Summary of Option Packages

The following are summaries of the benefit option packages available. For a complete explanation of the benefits provided by this plan, including all limitations and exclusions, please read the entire plan.

GP-1-SI P130.1585-R

***Option A*** Employee Basic Term Life Insurance in the amount of $50,000.00.

GP-1-SI P130.1586-R

Employee Optional Term Life in an amount selected by the employee.

GP-1-SI P130.2608-R

Employee Accidental Death and Dismemberment Insurance in the amount of $50,000.00

GP-1-SI P130.1606-R

Employee Optional AD&D in an amount selected by the employee.

GP-1-SI P130.2609-R

***Option B*** Employee Basic Term Life Insurance in the amount of $50,000.00.

GP-1-SI P130.1586-R

Employee Optional Term Life in an amount selected by the employee.

GP-1-SI P130.2608-R

Employee Accidental Death and Dismemberment Insurance in the amount of $50,000.00

GP-1-SI P130.1606-R

Employee Optional AD&D in an amount selected by the employee.

GP-1-SI P130.2609-R

GP-1-SI P130.1995-R

***All Options***

***Basic Term Life Insurance Amount*** The Insurance Amount is .................................... $50,000.00

GP-1-SI P130.2003-R

***All Options***

***Reduction of Basic Life Insurance Amount Based on Age*** If an employee is less than age 65 when his or her insurance under this plan starts, his or her insurance amount is reduced, on the date he or she reaches age 65, by 35% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 65 but before he or she reaches age 70.

If an employee is less than age 70 when his or her insurance under this plan starts, the employee's basic life insurance amount is reduced, when he or she reaches age 70, by 50% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 70.

GP-1-SI P130.1971-R

***All Options***

***Limitations For Future Entrants*** However, regardless of any of the above reductions, we limit the amount of insurance for which the employee is eligible if an employee's insurance under this plan starts both: (a) after this plan's effective date; and (b) after he or she reaches age 70.

If an employee provides us with proof of insurability, and we approve it in writing, the amount of his or her insurance will be 50% of the amount which otherwise applies to his or her classification and/or option. But in no event will this reduced amount be less than $1,000.00.

If we do not approve the employee's proof, his or her insurance amount will be $1,000.00.

GP-1-SI P130.2572-R

## *Employee Basic Accidental Death and Dismemberment Insurance (AD&D)*

*GP-1-SI* *P130.2021-R*

***All Options***

| | |
|---|---|
| ***Basic AD&D Insurance Amount*** | Insurance Amount ........ $50,000.00 |

GP-1-SI P130.1945-R

***All Options***

**Spousal Education and Retraining Benefit**

| | |
|---|---|
| ***Lifetime Maximum Benefit*** | $20,000 |
| ***Maximum Number Of Benefit Payments*** | Full-Time Post Secondary Education ........ 8<br>Part-Time Post Secondary Education ........ 4 |

GP-1-SI P130.4220-R

***All Options***

**Dependent Child Education Benefit**

| | |
|---|---|
| ***Lifetime Maximum Benefit*** | $20,000.00 per eligible dependent |
| ***Maximum Number Of Benefit Payments*** | 8 per lifetime per eligible dependent |
| ***Maximum Benefit Period*** | 6 years from the date the first education benefit is made; per eligible dependent. |

GP-1-SI P130.4221-R

***All Options***

***Reduction of Basic AD&D Amount Based on Age***

If an employee is less than age 65 when his or her insurance under this plan starts, his or her insurance amount is reduced, on the date he or she reaches age 65, by 35% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 65 but before he or she reaches age 70.

If an employee is less than age 70 when his or her insurance under this plan starts, the employee's basic life insurance amount is reduced, when he or she reaches age 70, by 50% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 70.

GP-1-SI P130.2496-R

***Employee Basic Accidental Death and Dismemberment Insurance (AD&D) (Cont.)***

***All Options***

***Limitations For Future Entrants*** However, regardless of any of the above reductions, we limit the amount of insurance for which the employee is eligible if an employee's insurance under this plan starts both: (a) after this plan's effective date; and (b) after he or she reaches age 70.

If an employee provides us with proof of insurability, and we approve it in writing, the amount of his or her insurance will be 50% of the amount which otherwise applies to his or her classification and/or option. But in no event will this reduced amount be less than $1,000.00.

If we do not approve the employee's proof, his or her insurance amount will be $1,000.00.

GP-1-SI P130.2559-R

***All Options***

**Schedule of Benefits**

***Optional Contributory Term Life Insurance***

*GP-1-SI* *P130.2034-R*

***All Options***

***Optional Life Enrollment Period*** The employee may choose to be insured under one of the plans of optional term life insurance shown below. The employee may only be insured under one plan at a time. The employee must notify the employer of his or her election and pay the required premium.

The employee may switch to another plan of benefits at any time, subject to any of this plan's proof of insurability requirements. The employee must notify the employer of any desired switch.

GP-1-SI P130.3040-R

***Optional Term Life Insurance Amount*** ***Plan A***

$25,000.00

GP-1-SI P130.2056-R

***Optional Term Life Insurance Amount*** ***Plan B***

$50,000.00

GP-1-SI P130.2085-R

***Optional Term Life Insurance Amount*** ***Plan C***

$75,000.00

GP-1-SI P130.2092-R

***Optional Term Life Insurance Amount*** ***Plan D***

$100,000.00

GP-1-SI P130.2099-R

***All Options***

***Reduction of Optional Life Insurance Amount Based on Age***

If an employee is less than age 65 when his or her insurance under this plan starts, his or her insurance amount is reduced, on the date he or she reaches age 65, by 35% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 65 but before he or she reaches age 70.

If an employee is less than age 70 when his or her insurance under this plan starts, the employee's insurance amount is reduced, when he or she reaches age 70, by 60% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 70 but before he or she reaches age 75.

If an employee is less than age 75 when his or her insurance under this plan starts, the employee's insurance amount is reduced, when he or she reaches age 75, by 75% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 75 but before he or she reaches age 80.

If an employee is less than age 80 when his or her insurance under this plan starts, the employee's insurance amount is reduced, when he or she reaches age 80, by 85% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 80.

GP-1-SI P130.2524-R

***All Options***

***Proof of Insurability Requirements***

Proof of insurability requirements apply to the optional term life insurance. Such requirements may apply to the full benefit amount or just part of it. When proof of insurability requirements apply, it means the employee must submit to us proof that he or she is insurable, and we must approve that proof in writing before the insurance, or the specified part becomes effective.

We require proof as follows:

GP-1-SI P130.2444-R

***All Options***

We require proof before we will insure any employee who enrolls for optional term life insurance after the time allowed for enrolling as specified in this plan.

***All Options***

We require proof before an employee switches from his or her current plan of optional term life insurance to a plan which provides greater benefits.

***All Options***

We require proof for amounts of optional term life insurance in excess of $50,000.00.

## *All Options* — Schedule of Benefits

***Employee Optional Contributory Accidental Death and Dismemberment Insurance (AD&D)***

***All Options***

***Optional AD&D Enrollment Period*** The employee may choose to be insured under one of the plans of optional AD&D insurance shown below. The employee may only be insured under one plan at a time. The employee must notify the employer of his or her election and pay the required premium.

The employee may switch to another plan of benefits at any time, subject to any of this plan's proof of insurability requirements. The employee must notify the employer of any desired switch.

GP-1-SI P130.3041-R

***Optional AD&D Insurance Amount*** ***Plan A*** $25,000.00

GP-1-SI P130.2279-R

***Optional AD&D Insurance Amount*** ***Plan B*** $50,000.00

GP-1-SI P130.2286-R

***Optional AD&D Insurance Amount*** ***Plan C*** $75,000.00

GP-1-SI P130.2293-R

***Optional AD&D Insurance Amount*** ***Plan D*** $100,000.00

GP-1-SI P130.2300-R

***Option B***

***Family Unit Coverage*** If family unit consists of employee and spouse only, spouse insurance amount is 60% of the employee's insurance amount.

If family unit consists of employee, spouse, and child(ren), spouse insurance amount is 40% of employee's insurance amount; child insurance amount is 10% of employee's insurance amount.

If family unit consists of employee and child(ren) only, child insurance amount is 20% of employee's insurance amount.

GP-1-SI P130.4224-R

***All Options***

**Spousal Education and Retraining Benefit**

***Lifetime Maximum Benefit*** $20,000

***Maximum Number Of Benefit Payments***

Full-Time Post Secondary Education .................................... 8

Part-Time Post Secondary Education .................................... 4

GP-1-SI P130.4222-R

***All Options***

**Dependent Child Education Benefit**

***Lifetime Maximum Benefit*** $20,000.00 per eligible dependent

***Maximum Number Of Benefit Payments*** 8 per lifetime per eligible dependent

***Maximum Benefit Period*** 6 years from the date the first education benefit is made; per eligible dependent.

GP-1-SI P130.4223-R

***All Options***

***Reduction of Optional AD&D Amount Based on Age*** If an employee is less than age 65 when his or her insurance under this plan starts, his or her insurance amount is reduced, on the date he or she reaches age 65, by 35% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 65 but before he or she reaches age 70.

If an employee is less than age 70 when his or her insurance under this plan starts, the employee's optional life insurance amount is reduced, when he or she reaches age 70, by 50% of the amount which otherwise applies to his or her classification and/or option. But in no case will such reduced amount be less than $1,000.00.

The preceding reduction also applies to an employee's initial insurance amount if his or her insurance starts after he or she reaches age 70.

GP-1-SI P130.2533-R

***All Options***

***Limitations For Future Entrants*** However, regardless of any of the above reductions, we limit the amount of insurance for which the employee is eligible if an employee's insurance under this plan starts both: (a) after this plan's effective date; and (b) after he or she reaches age 70.

If an employee provides us with proof of insurability, and we approve it in writing, the amount of his or her insurance will be 50% of the amount which otherwise applies to his or her classification and/or option. But in no event will this reduced amount be less than $1,000.00.

If we do not approve the employee's proof, his or her insurance amount will be $1,000.00.

GP-1-SI P130.2566-R

***Employee Optional Contributory Accidental Death and Dismemberment Insurance (AD&D) (Cont.)***

***All Options***

***Proof of Insurability Requirements*** Proof of insurability requirements apply to the optional AD&D insurance. Such requirements may apply to the full benefit amount or just part of it. When proof of insurability requirements apply, it means the employee must submit to us proof that he or she is insurable, and we must approve that proof in writing before the insurance, or the specified part becomes effective.

We require proof as follows:

GP-1-SI P130.2467-R

***All Options***

We require proof before we will insure any employee who enrolls for optional AD&D insurance after the time allowed for enrolling as specified in this plan.

GP-1-SI P130.4234-R

***All Options***

We require proof before an employee switches from his or her current plan of optional AD&D insurance to a plan which provides greater benefits.

GP-1-SI P130.4235-R

## *All Options*

## Schedule of Benefits

***Effective Dates for Changes to Insurance***

*GP-1-SI* *P130.3343-R*

***All Options***

***Changes in Insurance Amounts*** Any increase or decrease in the amount of insurance on any individual shall become effective on the effective date of a change in the Employee's classification, except that any increase in the amount of insurance on an Employee eligible for benefits under an established benefit period shall become effective, in the case of an Employee not actively at work, on the day on which he returns to active work on a full-time basis (or the day on which his benefit period terminates, whichever is later).

In no event shall the insurance of an Employee who is not actively at work on a full-time basis be increased or decreased prior to the date such Employee returns to active work on a full-time basis.

GP-1-SI P130.9325-R

## Schedule of Premium Rates

The monthly premium rates, in U.S. dollars, for the insurance provided under this plan are listed below.

GP-1-SI P130.9260-R

## *All Options* Premium Rates

***Employee Basic Term Life Insurance***

*GP-1-SI* *P130.2823-R*

***All Options*** All Classes

The following set of rates represents the rate per $1,000.00 of coverage.

**Rate per Employee**

**(00006)**

GP-1-SI P130.2838-R

## *All Options* Premium Rates

***Employee Basic Accidental Death and Dismemberment Insurance (AD&D)***

*GP-1-SI* *P130.2824-R*

***All Options*** All Classes

The following set of rates represents the rate per $1,000.00 of coverage.

**Rate per Employee**

**(00006)**

GP-1-SI P130.2842-R

## *All Options* Premium Rates

***Employee Optional Contributory Term Life Insurance***

*GP-1-SI* *P130.2825-R*

***All Options*** All Classes

The following set of rates represents the rate per $1,000.00 of coverage.

**Rate per Employee**

**(00006)**

GP-1-SI P130.2846-R

## *All Options* Premium Rates

***Employee Optional Contributory Accidental Death and Dismemberment Insurance***

*GP-1-SI* *P130.2826-R*

***Option A*** Class 0001

The following set of rates represents the rate per $1,000.00 of coverage.

**Rate per Employee**

**(00006)**

GP-1-SI P130.2850-R

***Option B*** Class 0001

The following set of rates represents the rate per $1,000.00 of coverage.

**Rate per Employee**

**(00006)**

GP-1-SI P130.2850-R

We have the right to change any premium rate(s) set forth above at the times and in the manner established by the provision of the group plan entitled "Premiums".

GP-1-SI P130.9298-R

***All Options***

A specimen copy of the master group policy provisions which apply to the plan of insurance for the participating employer named on the first page of this rider, is attached hereto and incorporated herein. The originals of such provisions are part of the master group policy which was delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as Policyholder.

GP-1-SI P130.0508-R

***All Options***

This rider shall form a part of the group policy. You, the policyholder and The Guardian are subject to all of the terms and conditions contained in the group policy and this rider.

Dated at Bethlehem, PA This 19th Day of February , 2002

**The Guardian** Life Insurance Company of America

Sanford Herman

Vice President, Group Pricing & Standards

GP-1-ER-90-2 P130.1027-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

**Trustees.** The term "trustees" shall mean the Citizens Savings Bank and Citizens Trust Company.

**Participating Employers - Eligible Employer.** An Eligible Employer may become a Participating Employer by filing, through the Trustees, with the Home Office of the Insurance Company an agreement executed by the employer adopting the terms of the Trust Agreement and by receiving the Insurance Company's approval, in writing, of its inclusion as a Participating Employer. The date the employer becomes a Participating Employer shall be stated in the Employer Rider pertaining to such Employer. "Employer Rider" as used any place in this Policy shall mean each separate rider or riders, attached to and forming part of this Policy, identifying and specifically applying to each employer who is a Participating Employer under this Policy and which contains details of the plan of insurance pertaining to the employees of each such Participating Employer.

"Eligible Employer" as used above shall mean any employer engaged in the industry covered under this Policy.

**Participation Date.** The date as of which an Employer becomes a Participating Employer is referred to herein as the Participation Date with respect to such Employer and its Employees.

**Employees Eligible.** Those employees identified in the Employee Riders are eligible for insurance under this Policy for the insurance coverages specified therein.

**Termination of Employee Coverage.** An Employee's insurance on behalf of himself under this Policy shall automatically terminate:

(1) If his employment terminates.

(2) If he ceases to be a member of the classes of employees eligible for the insurance.

(3) If this Policy terminates.

(4) If this Policy is discontinued with respect to the Employees of his Participating Employer.

Termination of employment shall be deemed to occur when the Employee ceases active service on a full-time basis with his Participating Employer, except to the extent this requirement is modified in the Employer Rider pertaining to each Participating Employer.

**Schedule of Insurance and Premium Rates:**

**Schedule.** This Group Policy, together with any amendments thereto, contains all the insurance coverages which may be provided by the Employer Rider. The insurance benefits, and the amount thereof, for which the employee is eligible under this Policy on behalf of himself, and on behalf of his dependents if they are covered under this Policy, shall be in accordance with the provisions of the Employer Rider pertaining to each Participating Employer. The classification of each individual Employee shall be determined by the Policyholder from time to time without discrimination among persons in like circumstance, and such determination shall be final and conclusive.

TGP-1-MET P140.9047-R

***All Options***

**Premiums:** Premiums under this Policy are due and payable, as specified on the first page of this Policy, by the Policyholder at an office of the Insurance Company or to an authorized representative. By mutual agreement between the Policyholder and the Insurance Company the interval of payment may be changed, with appropriate adjustment to provide for payment annually, semi-annually, quarterly, or monthly.

The premium due under this Policy on each premium due date shall be the sum of the premium charges for the insurance coverages provided for Participating Employers under this Policy and shall be based upon the rates set forth in the Employer Riders, provided that (a) on the first anniversary of any such Rider and on the first day of any month thereafter, and (b) on any date the extent of coverage for a Participating Employer under any such Rider is changed by amendment to this Policy, or to such Rider, the Insurance Company may, by advance written notice to the Policyholder, change the rates at which further premiums due for the Insurance provided under such Rider shall be computed. Such change shall apply to premiums due on and after the effective date of the change stated in such notice. The Insurance Company, however, shall not have the right to change the rates under (a) above more than once during any twelve consecutive months, with respect to an Employer Rider.

**Adjustment of Premiums Payable Other Than Monthly or Quarterly:** If under the foregoing provisions, a premium rate is changed, (or if under the provision "Computation of Group Life Insurance Premiums", an average premium rate is changed) after an annual or semi-annual premium became payable with respect to coverage on or after the date of such change, such premium shall be adjusted by a proportionate increase or decrease for such unexpired period for which such premium became payable. If the adjustment results in a decrease in such premium which became payable the amount of the decrease for such unexpired period shall be payable to the Policyholder by the Insurance Company. If the adjustment results in an increase in such premium which became payable the amount of the increase for such unexpired period shall be considered a premium due on the date of such change, and the Policy provisions concerning grace period shall apply thereto.

**Liability of Trustees to Pay Premiums:** The Trustees (the Policyholder hereunder) shall be exempt from personal liability with respect to the premiums required by this Policy to be paid by them, but shall be liable for such premiums only in their fiduciary capacity.

**Grace in Payment of Premiums - Termination of Policy:** A grace period of thirty-one days, without interest charge, will be allowed the Policyholder for the payment of the premium due under this Policy on any due date except the first. If any premium with respect to the Employees of any Participating Employer is not paid before the expiration of the grace period, this Policy shall automatically terminate with respect to all Employees of such Participating Employer at the expiration of the grace period, except that if the Policyholder shall have given the Insurance Company written notice in advance of an earlier date of termination during the grace period, this Policy shall terminate with respect to all Employees of such Participating Employer as of such earlier date. The Policyholder shall be liable to the Insurance Company for all unpaid premiums with respect to the Employees of a Participating Employer for the period (including a pro-rata premium for the grace period or fraction thereof) during which this Policy was in force with respect to such Employees.

This Policy shall terminate immediately upon termination of an insurance coverage under this Policy if, as the result of the termination of such coverage, no benefits remain in effect under this Policy.

**Term of Policy and Employer Riders - Renewal Privilege:** This Policy is issued for a term of one (1) year from its effective date. All Policy years and Policy months shall be calculated from the effective date. All periods of insurance under the Employer Riders shall begin and end at 12:01 A.M. Standard Time at the Policyholder's place of business.

The Policyholder may renew this Policy for a further term of one (1) year, on the first and each successive anniversary of its effective date; provided, however, that the Insurance Company has the right to: (A) decline to renew this Policy on any anniversary, and (B) to decline to renew a particular insurance coverage on the first anniversary, or on any premium due date thereafter, if with regard to (A) the number of Employees insured under this Policy, or with regard to (B) the number of Employees insured for such Coverage, shall be less than twenty-five. If, in accordance with the preceding paragraph, the Policy is not renewed, all Employer Riders shall thereupon terminate as of the date the Policy terminates. Subject to the foregoing, the renewability of the insurance provided under an Employer Rider shall be in accordance with the provisions of such Rider.

Renewal is conditioned upon payment of the premium then due, computed as provided in the Section entitled "Premiums".

***All Options***

**The Contract:** The Policy and any riders or amendments hereto, and the Application of the Participating Employer, a copy of which is attached hereto or endorsed hereon and made a part hereof, constitute the entire contract between the parties.

The Policy may be amended at any time, without the consent of the Employees insured hereunder or any other person having a beneficial interest therein, upon written request made by the Participating Employer and agreed to by the Insurance Company, but any such amendment shall be without prejudice to any claims arising prior to the date of the change. No agent is authorized to alter or amend this Policy, to waive any conditions or restrictions contained herein, to extend the time for paying a premium, or to bind the Insurance Company by making any promise or representation or by giving or receiving any information. No change in this Policy shall be valid unless evidenced by an endorsement or rider hereon signed by the President, a Vice President, a Secretary, the Actuary, and Associate Actuary, an Assistant Secretary or an Assistant Actuary of the Insurance Company, or by an amendment hereto signed by the Policyholder and by one of the aforesaid officers of the Insurance Company.

Wherever in this Policy a personal pronoun in the masculine gender is used or appears, it shall be taken to include the feminine also, unless the context clearly indicates the contrary.

**Incontestability:** This Policy shall be incontestable after two years from its date of issue except for non-payment of premiums. With respect to a Participating Employer, the policy shall be incontestable based on statements made in the application after two years from the Employer Rider Effective Date.

With respect to the insurance on an Employee and/or his eligible dependents, their insurance shall be incontestable after two years from his effective date, except for violation by the Employee of the conditions, if any, of this Policy relative to military or naval service.

**Clerical Error - Misstatements:** Neither clerical error by the Policyholder, a Participating Employer, or by the Insurance Company in keeping any records pertaining to insurance under this Policy, nor delays in making entries thereon, shall invalidate insurance otherwise validly in force or continue insurance otherwise validly terminated, but upon discovery of such error or delay an equitable adjustment of premiums shall be made.

If the age of an employee, or any other relevant facts, be found to have been misstated, and the premiums are thereby affected, an equitable adjustment of premiums shall be made, and if such misstatement affects the existence on the amount of insurance, the true facts shall be used in determining whether insurance is in force under the terms of this Policy and in what amount.

**Statements:** No statements shall avoid the insurance under this Policy, or be used in defense of a claim hereunder unless in the case of the Participating Employer, it is contained in the Application for this Policy, signed by him and in the case of an Employee, it is contained in a written request or application signed by him and a copy of which has been furnished to him or to his beneficiary.

All statements shall be deemed representations and not warranties.

**Employee's Certificate:** The Insurance Company will issue to the Participating Employer, for delivery to each Employee insured hereunder, a copy of his application and certificate booklet which shall state the essential features of the insurance to which the Employee is entitled and to whom the benefits are payable, and in case of group life insurance, the provisions of the section "Conversion Privilege." Any such certificate shall not constitute a part of this Policy and shall in no way modify any of the terms and conditions set forth in this Policy.

In the event this Policy is amended by changes which affect the description of the essential features of the insurance contained in an Employee's Certificate, a rider or revised certificate reflecting such changes will be issued to the Policyholder for delivery to the Employee.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

**Dividends:** The portion, if any, of the divisible surplus of the Insurance Company allocable to this Policy at each Policy anniversary shall be determined annually by the Board of Directors of the Insurance Company and shall be credited to this Policy as a dividend on such anniversary, provided this Policy is continued in force by the payment of all premiums to such anniversary.

Any dividend under this Policy shall be paid to the Policyholder in cash, or at the option of the Policyholder it may be applied to the reduction of the premiums then due.

If the dividends under this Policy should be in excess of the Policyholder's cost of insurance, such excess shall be applied for the sole benefit of the Employees.

Payment of any dividend to the Policyholder shall completely discharge the liability of the Insurance Company with respect to the dividend so paid.

**Assignment:** The right of the Insured Employee to assign any interest under this policy shall be governed as follows:

(1) With respect to Group Term Life Insurance (Including Employee Basic Term Life Insurance and Employee Supplemental Term Life Insurance if provided under the Policy), the Insured Employee may, subject to the following conditions, assign all rights or interest of every kind which he now has, or hereafter may acquire, in such insurance, including, but not limited to, those stated under the applicable provisions in this Policy entitled "BENEFICIARY", "CONVERSION PRIVILEGE" and "OPTIONAL MODES OF SETTLEMENT", provided (a) such assignment be irrevocable and absolute in form, for no value, with the Insured Employee retaining no further interest in such insurance; and (b) the assignment be made to only ONE of the following: the spouse, child or grandchild, parent or grandparent, brother or sister of the Insured Employee, or the trustee of a trust established for the benefit of one or more of these.

(2) With respect to Accident and Health Insurance, neither the Insured Employee's certificate nor the right to insurance benefits hereunder is assignable, except that the benefits, if any, payable for hospital, surgical or medical expense may be assigned to the institution or person providing the service on account of which such benefits become payable.

The Insurance Company shall not be charged with notice of any assignment of interest under this Policy until the original assignment has been accepted and if filed with it at its Home Office. However, the Insurance Company assumes no responsibility for the validity or effect of any such assignment and its position with respect thereto is not altered by filing or recording the same, save as to notice thereof.

**Records - Information to be Furnished:** The Policyholder shall keep a record of Employees insured, containing, for each Employee, the essential particulars of the insurance. The Policyholder shall, as prescribed by the Insurance Company, periodically forward to the Insurance Company, on the Insurance Company's forms, such information concerning the Employees eligible for insurance under this Policy as may reasonably be considered to have a bearing on the administration of the insurance under this Policy and on the determination of premium rates, and any other information which the Insurance Company may reasonably require with regard to any matters pertaining to this Policy. Any records of the Policyholder, or of the Participating Employers, as may have a bearing on the insurance under this Policy shall be open for inspection by the Insurance Company at any reasonable time.

**Claims of Creditors:** Except so far as may be contrary to the laws of any state having jurisdiction in the premises, the insurance and other benefits under this Policy shall be exempt from execution, attachment, garnishment, or other legal or equitable process, for the debts or liabilities of the Employees or their beneficiaries.

**Assignment by Trustees or Participating Employers:** Assignment or transfer of the interest of the Policyholder or of any Participating Employer under this Policy shall not bind the Insurance Company without its written consent thereto.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

**ATTACHED TO AND MADE PART OF GROUP INSURANCE POLICY NO. G -00396174-CC**

issued by

**The Guardian** Life Insurance Company of America

to

**Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund**
**with respect to**
**SAMPLE LIFE CONTRACT MLI/ADD/MOL/WAIVER 65 LIFEASSIST AGE 65/ACCELERATED/PORTABILITY/FAMILY ADO**

As of March 1, 2002, this rider amends this Policy as follows:

**(1)** The following provisions of this Policy are hereby deleted and replaced by the revised corresponding provisions set forth below.

## Premiums

Premiums due under this Policy must be paid by the Participating Employer at an office of The Guardian or to a representative that we have authorized. The premiums must be paid as specified in the Employer Rider, unless by agreement between the Participating Employer and The Guardian, the interval of payment is changed. In that event, adjustment will be made to provide for payment annually, semi-annually, quarterly or monthly.

The premium due under this Policy on each premium due date will be the sum of the premium charges for the insurance coverages provided under the Employer Rider. The premium charges are based upon the rates set forth in this Policy's "Schedule of Insurance and Premium Rates" section.

However, we may change such rates:

- on the first day of any policy month;
- on any date the extent or terms of coverage for a participating Employer are changed by amendment of this Policy, or of the Employer Rider;
- on any date our obligation under this Policy with respect to a participating Employer is changed because of statutory or other regulatory requirements; or
- on any date our obligation under an Employer Rider is changed because of a change in the benefits: (a) with which the benefits provided by an Employer Rider are coordinated; or (b) which are supplemented by the benefits provided by an employer rider.

We must give the Participating Employer 31 days written notice of the rate change. Such change will apply to any premium due on and after the effective date of the change stated in such notice.

## Adjustment of Premiums Payable Other Than Monthly or Quarterly

Under the above provision, if a premium rate is changed after an annual or semi-annual premium became payable with respect to coverage on and after the date of such change, the premium will be adjusted by a proportionate increase or decrease for the unexpired period for which the premium became payable. If the adjustment results in a decrease, the amount of the decrease will be paid to the Participating Employer by us. If the adjustment results in an increase, the amount of the increase will be considered a premium due on the date of the rate change. This Policy's grace period provisions will apply to any such premium due.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

## Grace in Payment of Premiums - Termination of Policy

A grace period of 31 days, without interest charge, will be allowed the Participating Employer for each premium payment except the first. If any premium with respect to the employees of a Participating Employer is not paid before the end of the grace period, such employees' coverage under this policy automatically ends at the end of the grace period. However, if the Participating Employer gives us 31 days written notice in advance of an earlier termination date during the grace period, such employees' coverage under this Policy ends as of such earlier date.

If the coverage of the employees of a Participating Employer ends during or at the end of the grace period, the Participating Employer will still owe us premium for all the time coverage was in force with respect to such employees during the grace period.

This Policy ends immediately on any date when an insurance coverage under this Policy ends and, as a result, no benefits remain in effect under this Policy.

GP-1-A-GP-90-1 P150.0004-R

***All Options***

## Incontestability

This Policy is incontestable after two years from its date of issue, except for non-payment of premiums.

A Participating Employer's insurance under this Policy shall be incontestable after two years from his Rider Effective Date, except for nonpayment of premiums.

No statement in any application, except a fraudulent statement, made by a person insured under this Policy shall be used in contesting the validity of his insurance or in denying a claim for a loss incurred, or for a disability which starts, after such insurance has been in force for two years during his lifetime.

If the Participating Employer's group plan replaces the group plan he had with another insurer, we may rescind his plan based on misrepresentations made by the Participating Employer or a covered person in a signed application for up to two years from the Rider Effective Date.

GP-1-A-GP-90-2 P150.0005-R

***All Options***

## The Contract

The entire contract between the Guardian and the Participating Employer consists of this Policy and any amendments thereto which pertain to his plan of insurance, including the Participating Employer's Employer Rider, and the Participating Employer's application, a copy of which is attached hereto or endorsed hereon.

We can amend this Policy or an Employer Rider at any time, without the consent of the insured employees or any other person having a beneficial interest therein, as follows:

We can amend this Policy or an Employer Rider:

- upon written request made by the Participating Employer and agreed to by The Guardian;
- on any date our obligation under this Policy with respect to a Participating Employer is changed because of statutory or other regulatory requirements; or
- on any date our obligation under an Employer Rider is changed because of a change in the benefits: (a) with which the benefits provided by an Employer Rider are coordinated; or (b) which are supplemented by the benefits provided by an Employer Rider.

If we amend the Policy or an Employer Rider, except upon request made by the Participating Employer, we must give the Participating Employer written notice of such amendment.

Any amendments to this Policy or an Employer Rider will be without prejudice to any claim arising prior to the date of the change.

No person, except by a writing signed by the President, a Vice President or a Secretary of The Guardian, has the authority to act for us to: (a) determine whether any contract, Policy or certificate of insurance is to be issued; (b) waive or alter any provisions of any insurance contract or Policy, or any requirements of The Guardian; (c) bind us by any statement or promise relating to the insurance contract issued or to be issued; or (d) accept any information or representation which is not in a signed application.

All personal pronouns in the masculine gender used in this Policy, will be deemed to include the feminine also, unless the context clearly indicates the contrary.

## Clerical Error - Misstatements

Neither clerical error by the Policyholder, a Participating Employer or The Guardian in keeping any records pertaining to insurance under this Policy, nor delays in making entries thereon, will invalidate insurance otherwise validly in force or continue insurance otherwise validly terminated. However, upon discovery of such error or delay, an equitable adjustment of premiums will be made.

Premium adjustments involving return of unearned premium to the Participating Employer will be limited to the period of 12 months preceding the date of our receipt of satisfactory evidence that such adjustments should be made.

If the age of an employee, or any other relevant facts, are found to have been misstated, and the premiums are thereby affected, an equitable adjustment of premiums will be made. If such misstatement involves whether or not an insurance risk would have been accepted by us, or the amount of insurance, the true facts will be used in determining whether insurance is in force under the terms of this Policy and the Employer Rider, and in what amount.

## Statements

No statement will avoid the insurance under this Policy, or be used in defense of a claim hereunder unless:

- in the case of the Participating Employer, it is contained in the application signed by him; or
- in the case of a covered person, it is contained in a written instrument signed by him.

All statements will be deemed representations and not warranties.

GP-1-A-GP-90-3 P150.0006-R

***All Options***

## Assignment

An employee's right to assign any interest under this Policy is governed as follows:

- With respect to any death benefits (including any basic term life, supplemental term life, optional term life or accidental death and dismemberment coverages provided by this Policy), the employee may, subject to the following conditions, assign all rights or interest in such insurance which he now has, or may later acquire.

  The assignment of an employee's death benefits is irrevocable and absolute in form, for no value. The employee retains no further interest in such insurance.

  The assignment may be made only to one of the following: The employee's spouse, child, grandchild, parent, grandparent, brother or sister. It may also be made to the trustee of a trust established for the benefit of one or more of these people.

  We will not be charged with notice of any assignment of any interest under this Policy until the original assignment has been accepted and filed with us at our Home Office. And we assume no responsibility as to the validity or effect of any such assignment.

- With respect to accident and health insurance, neither the employee's certificate nor his right to insurance benefits under this Policy are assignable. The employee may direct us, in writing, to pay hospital, surgical, major medical, or dental benefits to the recognized provider who provided the covered service for which benefits became payable. We may honor such direction at our option. But, such a direction is not considered an assignment of benefits and the employee may not assign his right to take legal action under this Policy to such provider. And we assume no responsibility as to the validity or effect of any such direction.

GP-1-A-GP-90-4 P150.0012-R

***All Options***

## Records - Information To Be Furnished

The Participating Employer must keep a record of the insured employees containing, for each employee, the essential particulars of the insurance which apply to the employee. The Participating Employer must periodically forward to us, on our forms, such information concerning the employees in the classes eligible for insurance under this Policy, as set forth in the Employer Rider, as may reasonably be considered to have a bearing on the administration of the insurance under this Policy and on the determination of the premium rates. For benefits which are based on an employee's salary, changes in an employee's salary must promptly be reported to us. The Participating Employer's payroll and other such records which have a bearing on the insurance must be furnished to us for inspection at our request at any reasonable time.

**(2)** The following provisions are hereby added to this Policy:

## Accident and Health Claims Provisions

An employee's right to make a claim under this Policy for any accident and health benefits provided under an Employer Rider, is governed as follows:

**Notice:** An employee must send us written notice of an injury or sickness for which a claim is being made within 20 days of the date the injury occurs or the sickness starts. This notice should include the employee's name and plan number.

**Proof of Loss:** We'll furnish the employee with forms for filing proof of loss within 15 days of receipt of notice. But if we don't furnish the forms on time, we'll accept a written description and adequate documentation of the injury or sickness that is the basis of the claim as proof of loss. The employee must detail the nature and extent of the loss for which the claim is being made.

If an Employer Rider provides weekly loss of time benefits, the employee must send us written proof of loss within 90 days of the end of each period for which we're liable. If an Employer Rider provides long term disability income replacement benefits, the employee must send us written proof of loss within 90 days of the date we request it. For any other loss, the employee must send us written proof of loss within 90 days of the loss.

**Late Notice of Proof:** We won't void or reduce an employee's claim if he can't send us notice of proof of loss within the required time. But he must send us notice and proof as soon as reasonably possible.

**Payment of Benefits:** If an Employer Rider provides benefits for loss of income, we'll pay them once every 30 days for as long as we're liable, provided the employee submits periodic written proof of loss as stated above. We'll pay all other accident and health benefits to which the employee is entitled under an Employer Rider as soon as we receive written proof of loss.

We pay all accident and health benefits to the employee, if he is living. If he is not living, we have the right to pay all accident and health benefits, except dismemberment benefits, to one of the following: (a) the employee's estate; (b) the employee's spouse; (c) the employee's parents; (d) the employee's children; (e) the employee's brothers and sisters; and (f) any unpaid provider of health care services. If an Employer Rider provides benefits for dismemberment, see "Accidental Death and Dismemberment Benefits" for how dismemberment benefits are paid.

When an employee files proof of loss, he may direct us, in writing, to pay health care benefits to the recognized provider of health care who provided the covered service for which benefits became payable. But we can't tell the employee that a particular provider provide such care. And the employee may not assign his right to take legal action under this Policy to such provider.

**Limitations of Actions:** An employee can't bring a legal action against this Policy until 60 days from the date he files proof of loss. And he can't bring legal action against this Policy after three years from the date he files proof of loss.

**Workers' Compensation:** The accident and health benefits provided by this Policy are not in place of, and do not affect requirements for coverage by Workers' Compensation.

GP-1-A-GP-90-5 P150.0014-R

***All Options***

## Examination and Autopsy

We have the right to have a doctor of our choice examine the person for whom a claim is being made under this Policy as often as we feel necessary. And we have the right to have an autopsy performed in the case of death, where allowed by law. We'll pay for all such examinations and autopsies.

**(3)** As used in this rider:

"Accident and health" means any dental, dismemberment, hospital, long term disability, major medical, out-of-network point-of-service, prescription drug, surgical, or weekly loss-of-time insurance provided under an Employer Rider.

"Our," "The Guardian," "us" and "we" mean The Guardian Life Insurance Company of America.

"Policy" means the master group policy of insurance.

**(4)** This Policy's provision entitled "Liability of Trustees to Pay Premiums" is hereby deleted.

This rider is a part of this Policy. Except as stated in this rider, nothing contained in this rider changes or affects any other terms of this Policy.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

Dated at ____________ This ____________ Day of ____________, ____

Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund
Full or Corporate Name of Policyholder

____________________ BY: ____________________
Witness Signature and Title

**The Guardian** Life Insurance Company of America

Sanford Herman

Vice President, Group Pricing & Standards

GP-1-A-GP-90-6 P150.0009-R

***All Options***

## A TOTALLY DISABLED EMPLOYEE'S RIGHT TO CONTINUE GROUP LIFE BENEFITS

**Important Notice:** This section applies to an employee's group term life benefits. These benefits are referred to as "group life benefits."

This section does not apply to accidental death and dismemberment benefits.

**If an Employee is Totally Disabled:** If an employee's group life benefits end while the employee is totally disabled, he may continue such benefits for a limited period of time subject to the payment of premiums. In this section, an employee is totally disabled if: (a) he is not able to perform any work for wage or profit due to a sickness or an injury; and (b) he becomes so disabled while insured by this group plan.

This continuation will end on the later of: (a) six months, starting on the date the total disability began; (b) for employees who meet our standard for total disability under the extended life benefits section of this plan, the end of the waiting period which applies to the permanent disability provision under that section.

The monthly premium the employee must pay to continue his group life benefits will be the amount which he would have been required to pay had he stayed insured by this group plan on a regular basis. He must make this payment to his employer at the times and in the manner specified by his employer. If the employee fails to pay this amount on time, he waives his right to continue his group life benefits.

If the employer fails, after timely receipt of any required employee payment, to pay us on behalf of such employee, thereby causing the employee's group life benefits to end, then the employer will become liable for the employee's group life benefits to the same extent as, and in place of, us.

**When the Continued Group Life Benefits End:** An employee's continued group life benefits end on the first of the following:

(a) the end of the applicable continuation period;

(b) the end of the period for which the last total monthly premium payment was made to us;

(c) the date the group plan ends or is amended to end benefits for the class of employees to which the employee belonged;

(d) the date the employee is no longer totally disabled; or

(e) the date the employee is approved by us in writing for coverage under any permanent disability provision of the extended life benefits section of this plan.

**Conversion Rights and Extended Life Benefits:** Any applicable conversion rights will still be in effect when the continuation period ends. Continuing his group life benefits under this section does not stop an employee from claiming his rights under the extended life benefits section of this plan.

GP-1-R-CC-83 P240.9000-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

# ELIGIBILITY FOR LIFE AND DISMEMBERMENT COVERAGES

P264.0017-R

***All Options***

## EMPLOYEE COVERAGE

### Eligible Employees

Subject to the Conditions of Eligibility set forth below, and to all of the other conditions of the plan, all of your employees who are in an eligible class will be eligible if they are active full-time employees.

For purposes of this plan, we will treat partners and proprietors like employees if they meet this plan's conditions of eligibility.

### Conditions of Eligibility

**Full-time Requirement:** We won't insure an employee unless he or she is an active full-time employee.

GP-1-EC-90-1.0 P180.0168-R

***All Options***

**Enrollment Requirement:** If an employee must pay all or part of the cost of employee coverage, we won't insure him or her until he or she enrolls and agrees to make the required payments. If he or she does this: (a) more than 31 days after he or she first becomes eligible; or (b) after he or she previously had coverage which ended because he or she failed to make a required payment, we will ask for proof that he or she is insurable. And the employee won't be covered until we approve that proof in writing.

GP-1-EC-90-2.0 P264.0070-R

***All Options***

**Proof of Insurability Requirements:** Part or all of an employee's insurance amounts may be subject to proof that he or she is insurable. The Schedule of Insurance explains if and when we require proof. An employee won't be covered for any amount that requires such proof until he or she gives the proof to us and we approve that proof in writing.

An employee whose active full-time service ends before he or she meets any proof of insurability requirements that apply to him or her will still have to meet those requirements if he or she is later re-employed by you or an associated company.

GP-1-EC-90-3.0 P264.0066-R

***All Options***

**The Waiting Period:** Employees in an eligible class are eligible for life and dismemberment insurance under this plan after they complete the service waiting period established by the employer, if any.

GP-1-EC-90-4.0 P264.0020-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

**Multiple Employment:** If an employee works for both you and a covered associated company, or for more than one covered associated company, we will treat him as if only one firm employs him. And such an employee will not have multiple coverage under this plan. But, if this plan uses the amount of an employee's earnings to set the rates, determine class, figure benefit amounts, or for any other reason, such employee's earnings will be figured as the sum of his earnings from all covered employers.

GP-1-EC-90-5.0 P180.0328-R

***All Options for All Classes***

## When Employee Coverage Starts

An employee must be actively at work, and working his or her regular number of hours, on the date his or her coverage is scheduled to start. And he or she must have met all of the conditions of eligibility which apply to him or her. If an employee is not actively at work on his or her scheduled effective date, we will postpone the start of his or her coverage until he or she returns to active work.

Sometimes, a scheduled effective date is not a regularly scheduled work day. But an employee's coverage will start on that date if he or she was actively at work, and working his or her regular number of hours, on his or her last regularly scheduled work day.

Whether an employee must pay all or part of the cost of employee coverage, he or she must elect to enroll and agree to make the required payments within 31 days of his or her eligibility date. If he or she does this on or before the eligibility date, his or her coverage is scheduled to start on his or her eligibility date. If he or she does this within 31 days after his or her eligibility date, his or her coverage is scheduled to start on the date he or she signs his or her enrollment form. However, if he or she elects to enroll and agrees to make the required payments more than 31 days after his or her eligibility date, his or her coverage won't start until he or she sends us proof that he or she is insurable. Once we've approved it, his or her coverage is scheduled to start on the effective date shown in the endorsement section of his or her application.

Any part of an employee's coverage which is subject to proof that he or she is insurable won't start unless he or she sends this proof to us, and we approve it in writing. Once we have approved it, that part of his or her coverage is scheduled to start on the effective date shown in the endorsement section of his or her application.

GP-1-EC-90-6.0 P264.0083-R

***All Options***

**Delayed Effective Date For Employee Optional Life Coverage:** With respect to this plan's employee optional group term life insurance, if an employee is not actively at work on a full-time basis on the date his or her coverage is scheduled to start, due to sickness or injury, we'll postpone coverage for an otherwise covered loss due to that condition. We'll postpone such coverage until he or she completes 10 consecutive days of active full-time service without missing a work day due to the same condition.

Coverage for an otherwise covered loss due to all other conditions will start on the date the employee returns to active full-time service.

GP-1-DEF-97 P270.0365-R

***All Options for All Classes***

## When Employee Coverage Ends

**When Employee Coverage Ends:** Except as explained in the "When Active Service Ends" section of this plan, an employee's insurance will end on the first of the following dates:

- the date an employee's active full-time service ends for any reason. Such reasons include disability, death, retirement, lay-off, leave of absence, and the end of employment.
- the date an employee stops being an eligible employee under this plan.
- the date the group plan ends, or is discontinued for a class of employees to which the employee belongs.
- the last day of the period for which required payments are made for the employee.

Also, an employee may have the right to continue certain group benefits for a limited time after his or her coverage would otherwise end. And an employee may have the right to replace certain group benefits with converted policies. The plan's benefit provisions explain these situations. Read the plan's provisions carefully.

GP-1-EC-90-8.0 P264.0038-R

***All Options for All Classes***

**When Active Service Ends:** You may continue an employee's life and dismemberment insurance under this plan after his active service with you ends only as follows:

- If an employee's active service ends because he is disabled you may continue his insurance subject to all of the terms of this plan.
- If an employee's active service ends because he goes on a leave of absence or is laid off, you may continue his insurance for the rest of the policy month in which the leave or layoff starts, plus 01 more full policy month(s). However, if the employee joins any armed force before this period ends, you may continue his insurance until the date he becomes a member of such armed force.
- If you continue an employee's benefits under this plan as set forth above, it must be based on a plan which prevents individual selection by you.
- And, any such continuation is subject to the payment of premiums, and to all of the other terms and conditions of this plan.
- The amount of an employee's insurance during any such continuation will be the amount in force on his last day of active service, subject to any reductions that would have otherwise applied if he had remained an active employee.

GP-1-EC-90-7.0 P264.0021-R

***All Options***

## An Employee's Right To Continue Group Life Insurance During A Family Leave Of Absence

**Important Notice:** This section may not apply to your plan. The employee must contact you to find out if:

- you must allow for a leave of absence under federal law, in which case;
- the section applies to the employee.

**Which Coverages Can Be Continued:** Coverage which applies to loss of life and accidental death and dismemberment may be continued at your option. The employee must contact you to find out if he or she may continue these coverages.

**If An Employee's Group Insurance Ends:** Group life insurance may end for an employee because he or she ceases full-time work due to an approved leave of absence. Such leave of absence must have been granted to allow the employee to care for a seriously ill spouse, child or parent, or after the birth or adoption of a child, or due to the employee's own serious health condition. If so, his or her group life insurance will be continued at your option. The employee will be required to pay the same share of the premium as before the leave of absence.

**When Continuation Ends:** Insurance may continue until the earliest of:

(a) the date the employee returns to full-time work;

(b) the end of a total leave period of 12 weeks in any 12 month period;

(c) the date on which the employee's coverage would have ended had the employee not been on leave; or

(d) the end of the period for which the premium has been paid.

GP-1-EC-90-7.0 P264.0025-R

***All Options***

## Definitions

GP-1-EC-90-DEF-1 P180.0155-R

***All Options***

**Employee** means a person who works for the employer at the employer's place of business, and whose income is reported for tax purposes using a W-2 form.

GP-1-EC-90-DEF-3 P180.0311-R

***All Classes***

**Full-time** means the employee regularly works at least the number of hours in the normal work week set by the employer (but not less than 30 hours per week), at his employer's place of business.

GP-1-EC-90-DEF-4 P180.0158-R

***All Options***

**Plan** means the Guardian group plan purchased by the employer.

GP-1-EC-90-DEF-6 P180.0975-R

***All Options***

**Proof or Proof of Insurability** means an application for insurance showing that a person is insurable.

GP-1-EC-90-DEF-7 P180.0161-R

***All Options***

**We, Us, Our** and **Guardian** mean The Guardian Life Insurance Company of America.

GP-1-EC-90-DEF-9 P180.0163-R

***All Options***

**You** and **Your** means the employer who purchased this plan.

GP-1-EC-90-DEF-10 P180.0164-R

***Option B***

## Dependent Accidental Death and Dismemberment Coverage

GP-1-DEP-90-1.0 P264.0375-R

***Option B***

**Eligible Dependents For Optional Dependent Benefits:** An employee's eligible dependents are: his or her legal spouse who is under age 70; and his or her unmarried dependent children who are 14 or more days old, until they reach age 23 and his or her unmarried dependent children, from age 23 until they reach age 25, who are enrolled as full-time students at accredited schools.

If a child is an eligible dependent of more than one employee under this plan, the child may be insured for dependent benefits by only one employee at a time.

GP-1-DEP-90-3.0 P264.0378-R

***Option B***

**Adopted Children and Step-Children:** An employee's "unmarried dependent children" include his or her legally adopted children and, if they depend on the employee for most of their support and maintenance, his or her step-children. We treat a child as legally adopted from the time the child is placed in the employee's home for the purpose of adoption. We treat such a child this way whether or not a final adoption order is ever issued.

**Dependents Not Eligible:** We exclude any dependent who is insured by this plan as an employee. And we exclude any dependent who is on active duty in any armed force.

GP-1-DEP-90-3.0 P264.0005-R

***Option B***

**Proof of Insurability:** We require proof that a dependent is insurable, if the employee: (a) enrolls a dependent and agrees to make the required payments after the end of the enrollment period; (b) in the case of a newly acquired dependent, other than the first newborn child, has other eligible dependents who he has not elected to enroll; or (c) in the case of a newly acquired dependent, has other eligible dependents whose coverage previously ended because he failed to make the required contributions, or otherwise chose to end such coverage.

A dependent is not insured by any part of this plan that requires such proof until the employee gives us this proof, and we approve it in writing.

If the employee's dependent coverage ends for any reason, including failure to make the required payments, his dependents won't be covered by this plan again until he gives us new proof that they're insurable and we approve that proof in writing.

GP-1-DEP-90-5.0 P264.0379-R

***Option B for Class 0001***

**When Dependent Coverage Starts:** In order for an employee's dependent coverage to begin he must already be insured for employee coverage or enroll for employee and dependent coverage at the same time. Subject to the "Exception" stated below and to all of the terms of this plan, the date an employee's dependent coverage starts depends on when he elects to enroll his initial dependents and agrees to make any required payments.

If the employee does this on or before his eligibility date, the dependent's coverage is scheduled to start on the later of the employee's eligibility date and the date the employee becomes insured for employee coverage.

If the employee does this within the enrollment period, the coverage is scheduled to start on the later of the date the employee signs the enrollment form; and the date the employee becomes insured for employee coverage.

If the employee does this after the enrollment period ends, the employee's dependent coverage is subject to proof of insurability and won't start until we approve that proof in writing.

Once an employee has dependent coverage for his initial dependents, he must notify us when he acquires any new dependents and agree to make any additional payments required for their coverage.

A newly acquired dependent will be covered for those dependent benefits not subject to proof of insurability from the later of the date the employee notifies us and agrees to make any additional payments, and the date the newly acquired dependent is first eligible.

If proof of insurability is required for dependent benefits as explained above, those benefits are scheduled to start, subject to the "Exception" stated below, on the effective date shown in the "Endorsement" section of the employee's application, provided that the employee sends us the proof we require; and we approve that proof in writing.

A copy of the approved application is furnished to the employee.

GP-1-DEP-90-6.0 P264.0387-R

***Option B***

**Exception:** If a dependent, other than a newborn child, is confined to a hospital or other health care facility; or is unable to carry-out the normal activities of someone of like age and sex on the date his or her dependent benefits would otherwise start, we'll postpone the effective date of such benefits until the day after his or her discharge from such facility; or until he or she resumes the normal activities of someone of like age and sex.

GP-1-DEP-90-7.0 P200.0708-R

***Option B for Class 0001***

**When Dependent Coverage Ends:** Dependent coverage ends for all of an employee's dependents when his employee coverage ends. Dependent coverage also ends for all of an employee's dependents when the employee stops being a member of a class of employees eligible for such coverage. And it ends when this plan ends, or when dependent coverage is dropped from this plan for all employees or for an employee's class.

If an employee is required to pay part of the cost of dependent coverage, and he fails to do so, his dependent coverage ends. It ends on the last day of the period for which he made the required payments, unless coverage ends earlier for other reasons.

An individual dependent's coverage ends when he stops being an eligible dependent. This happens to a child at 12:01 a.m. on the date the child attains this plan's age limit, when he marries, or when a step-child is no longer dependent on the employee for support and maintenance. It happens to a spouse when a marriage ends in legal divorce or annulment, and with respect to optional coverage, it happens at 12:01 a.m. on the date the spouse reaches age 70.

GP-1-DEP-90-9.0 P264.0382-R

***Option B***

## Definitions

GP-1-DEP-90-DEF-1 P200.0210-R

***Option B***

**Eligibility Date** for dependent coverage is the earliest date on which: (a) the employee has dependents; and (b) is eligible for dependent coverage.

GP-1-DEP-90-DEF-2 P200.0211-R

***Option B***

**Eligible Dependent** is defined in the provision entitled "Dependent Coverage."

GP-1-DEP-90-DEF-3 P200.0212-R

***Option B***

**Enrollment Period** means the 31 day period which starts on the date that the employee is eligible for dependent coverage.

GP-1-DEP-90-DEF-4 P200.0213-R

***Option B***

**Initial Dependents** means those eligible dependents the employee has at the time he first becomes eligible for employee coverage. If at this time he does not have any eligible dependents, but later acquires them, the first eligible dependents he acquires are his initial dependents.

GP-1-DEP-90-DEF-8 P200.0217-R

***Option B***

**Newly Acquired Dependent** means an eligible dependent the employee acquires after he already has coverage in force for initial dependents.

GP-1-DEP-90-DEF-9 P200.0218-R

***Option B***

**Plan** means the Guardian group plan purchased by the employer.

GP-1-DEP-90-DEF-11 P264.0065-R

***Option B***

**Proof** or **Proof of Insurability** means an application for insurance showing that a person is insurable.

GP-1-DEP-90-DEF-12 P200.0221-R

***Option B***

**We, Us, Our** and **Guardian** means The Guardian Life Insurance Company of America.

GP-1-DEP-90-DEF-14 P200.0223-R

***Option B***

**You** and **Your** means the employer who purchased this plan.

GP-1-DEP-90-DEF-15 P200.0224-R

***All Options***

## Employee Group Term Life Insurance

**Basic Life Benefit:** If an employee dies while insured for this benefit, we'll pay his beneficiary the amount shown in the schedule.

**Proof of Death:** We'll pay this insurance as soon as we receive written proof of death. This should be sent to us as soon as possible.

**The Beneficiary:** The employee decides who gets this insurance if he dies. He should have named his beneficiary on his enrollment form. The employee can change his beneficiary at any time by giving the employer written notice, unless he's assigned this insurance. But, the change won't take effect until the employer gives the employee written confirmation of the change.

If the employee named more than one person, but didn't tell us what their shares should be, they'll share equally. If someone he named dies before he does, that person's share will be divided equally by the beneficiaries still alive, unless the employee has told us otherwise.

If there is no beneficiary when an employee dies, we'll pay this insurance to one of the following: (a) his estate; (b) his spouse; (c) his parents; (d) his children; or (e) his brothers and sisters.

**Assigning This Life Insurance:** If an employee assigns this insurance, he permanently transfers all his rights under this insurance to the assignee. Only one of the following can be an assignee: (a) his spouse; (b) one of his parents or grandparents; (c) one of his children or grandchildren; (d) one of his brothers or sisters; or (e) the trustee(s) of a trust set up for the benefit of one or more of these relatives.

We suggest the employee speak to his lawyer before he makes any assignment. If he decides he wants to assign this insurance, he should ask the employer for details or write to us.

**Payment to a Minor or Incompetent:** If the employee's beneficiary is a minor or incompetent, we have the option of paying this insurance in monthly installments. We would pay them to the person who cares for and supports his beneficiary.

**Payment of Funeral or Last Illness Expenses:** We have the option of paying up to $2,000.00 of this insurance to any person who incurred expenses for the employee's funeral or last illness.

**Settlement Option:** If the employee or his beneficiary asks us, we'll pay all or part of this insurance in installments. Any request must be made to us in writing. The amounts of the installments and how they would be paid depend on what we offer at the time the request is made.

GP-1-R-LB-90 P270.0164-R

***All Options***

## Portability Privilege

**Applicability:** This provision applies only to this plan's employee Basic group term life insurance. It does not apply to supplemental life insurance, if any is included in this plan. And it does not apply to Accidental Death and Dismemberment with Catastrophic Loss Insurance.

**Important Restriction:** No employee may elect a portable certificate of coverage unless he or she has been covered by this group plan, or the one it replaced, for employee Basic group term life insurance for at least three consecutive months prior to the date his or her coverage under this plan ends. The employee must provide proof of insurability satisfactory to us.

**Portability of Basic Group Term Life Insurance:** An employee may elect to continue all or part of his or her employee Basic group term life insurance, by choosing a portable certificate of coverage, subject to the following terms.

The employee may port his or her coverage if coverage under this plan ends because he or she: (a) has terminated employment; or (b) stops being a member of an eligible class of employees.

The employee may not port his or her coverage, if he or she: (a) has reached his or her 70th birthday on the day coverage under this plan ends; or (b) is eligible for this plan's Basic Group Term Life Insurance Extended Life Benefit.

The employee may not port his or her coverage if coverage under this plan ends due to: (a) failure to pay any required premium; or (b) the end of this group plan.

The employee may port: (a) the full amount(s) of his or her Basic term life insurance as of the day his or her coverage under this plan ends, or (b) 50% of such amount, if such amount under this plan is at least $50,000.00.

**The Portable Certificate of Coverage:** The employee can port to a portable certificate of coverage. The certificate provides group term insurance. It does not provide any: (a) accidental death and dismemberment benefits; (b) income replacement benefits; or (c) extended life benefits or waiver of premium privileges. The benefits provided by the portable certificate of coverage may not be the same as the benefits of this group plan.

The premium for the portable certificate of coverage will be based on: (a) the employee's rate class under this plan; and (b) the employee's age bracket as shown in the Basic Life Portability Coverage Premium Notice.

**How to Port:** To get a portable certificate of coverage, the employee must: (a) apply to us in writing: and (b) pay the required premium. He or she has 31 days from the date his or her coverage under this plan ends to do this. We require proof of insurability satisfactory to us.

**Defined Term:** As used in this provision, the term "port" means to choose a portable certificate of coverage which provides group term life insurance.

GP-1-R-LP-00 P270.0371-R

***All Options***

## Information About Conversion and Portability

No covered person is allowed to convert his or her coverage, and elect a portable certificate of coverage at the same time. If a situation arises in which a covered person would be eligible to both convert and port, he or she may only exercise one of these privileges. A covered person may never be insured under both a converted policy and a portable certificate of coverage at the same time. The covered person should read his or her plan, as well as any related materials carefully before making an election.

GP-1-R-LPN-95 P270.0300-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

## Employee Optional Group Term Life Insurance

**The Choices:** The employee may elect to be insured for any of the plans of employee optional term life insurance offered by you. These plans are shown in the schedule. However, the employee can only be insured under one plan at a time. The employee must notify you of his or her election and pay the required premium.

The employee may switch to another plan of benefits at any time, subject to any of this plan's proof of insurability requirements. The employee must notify you of any desired switch.

**Life Benefit:** Subject to the limitations and exclusions below, if the employee dies while insured for this benefit, we'll pay his or her beneficiary the amount shown in the schedule for the plan of benefits the employee has elected. The life benefit may be subject to reductions based on the employee's age. These reductions are also shown in the schedule. The employee's benefit amount, a portion thereof, or increases in such amount may not become effective until he or she submits proof of insurability to us, and we approve it in writing. These requirements are also shown in the schedule.

**Proof of Death:** Subject to all of the terms of this plan, we'll pay this insurance as soon as we receive written proof of death which is acceptable to us. This should be sent to us as soon as possible.

**Suicide Exclusion:** We pay no benefits if the employee's death is due to suicide, if such death occurs within two years from the employee's optional group term life insurance effective date under this plan. Also, we pay no increased benefit amount if the employee's death is due to suicide, if such death occurs within two years from the effective date of the increase.

**Seatbelt and Airbag Benefits:** If the employee dies as a direct result of an automobile accident while properly wearing a seatbelt, we will increase his or her benefit amount by $10,000.00. And if the employee dies as a direct result of an automobile accident while both properly wearing a seatbelt, and sitting in a seat equipped with an airbag, we'll increase his or her benefit amount by an additional $5,000.00, for a total increase of $15,000.00.

**The Beneficiary:** The employee decides who gets this insurance if he or she dies. He or she should have named a beneficiary on his or her enrollment form. The employee can change his or her beneficiary at any time by giving you written notice, unless he or she has assigned this insurance. But the change won't take effect until you give the employee written confirmation of the change.

If the employee named more than one person, but didn't tell us what their shares should be, they'll share equally. If someone named dies before the employee does, his or her share will be divided equally by the beneficiaries still alive, unless the employee tells us otherwise.

If there is no beneficiary when the employee dies, we'll pay the insurance to one of the following: (a) his or her estate; (b) his or her spouse; (c) his or her parents; (d) his or her children; or (e) his or her brothers and sisters.

**Assigning This Life Insurance:** If the employee assigns this insurance, he or she permanently transfers all of his or her rights under this insurance to the assignee. Only one of the following can be an assignee: (a) the employee's spouse; (b) one of the employee's parents or grandparents; (c) one of the employee's children or grandchildren; (d) one of the employee's brothers or sisters; or (e) the trustee(s) of a trust set up for the benefit of one or more of these relatives.

We will recognize an assignee as the owner of the rights assigned only if: (a) the assignment is in writing and signed by the employee; and (b) a signed or certified copy of the written assignment has been received and approved by us.

We will not be responsible for legal, tax or other effects of any assignment, or for any benefits we pay under this plan before we receive and approve any assignment.

We suggest the employee speaks to a lawyer before he or she makes any assignment. If the employee decides he or she wants to assign this insurance, write to us for details.

**Payment to a Minor or Incompetent:** If the employee's beneficiary is a minor or incompetent, we have the option of paying this insurance in monthly installments. We would pay them to the person who cares for and supports the beneficiary.

**Payment of Funeral or Last Illness Expense:** We have the option of paying up to $2,000.00 of this insurance to any person who incurs expenses for the employee's funeral or last illness.

**Settlement Option:** If the employee or his or her beneficiary asks us, we'll pay all or part of this insurance in installments. Any request must be made to us in writing. The amounts of the installments and how they would be paid depend on what we offer at the time the request is made.

GP-1-R-EOPT-96 P273.0028-R

***All Options***

**THE FOLLOWING PROVISION APPLIES TO EMPLOYEE BASIC TERM LIFE INSURANCE:**

***All Options***

## Converting This Group Term Life Insurance

**If Employment or Eligibility Ends:** The employee's group life insurance ends if: (a) his or her employment ends; or (b) he or she stops being a member of an eligible class of employees. If either happens, the employee can convert his or her group life insurance to an individual life insurance policy. Conversion choices are based on the employee's disability status.

If the employee is not disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium", he or she can convert to a permanent life insurance policy. The employee can convert the amount for which he or she was covered under this plan, less any group life benefits he or she becomes eligible for in the 31 days after this insurance ends.

If the employee: (a) is disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium"; and (b) has not yet been approved for the Extended Life Benefit, he or she can convert to: (a) a permanent life insurance policy; or (b) an interim term insurance policy, as explained in the section labeled "Interim Term Insurance". The employee can convert the full amount for which he or she was covered under this plan.

If the disabled employee is later approved for the Extended Life Benefit, then the converted policy, if any, is cancelled as of our approval date.

**If The Group Plan Ends or Group Life Insurance Is Dropped:** The employee's group life insurance also ends if: (a) this group plan ends; or (b) life insurance is dropped from the group plan for all employees or for his or her class. If either happens, the employee may be eligible to convert as explained below. Conversion choices are based on the employee's disability status.

If the employee: (a) is not disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium", when this coverage ends; and (b) the employee has been insured by a Guardian group life plan for at least five years, he or she can convert to a permanent life insurance policy. But, the amount the employee can convert is limited to the lesser of: (a) $10,000.00; or (b) the amount of his or her insurance under this plan, less any group life benefits he or she becomes eligible for in the 31 days after this insurance ends.

If the employee: (a) is disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium"; and (b) has not yet been approved for the Extended Life Benefit, he or she can convert to: (a) a permanent life insurance policy; or (b) an interim term insurance policy. The employee can convert the full amount for which he or she was covered under this plan.

If the disabled employee is later approved for the Extended Life Benefit, then the converted policy, if any, is cancelled as of our approval date.

**The Converted Policy:** The premium for the converted policy will be based on the employee's age on the converted policy's effective date. The converted policy will start at the end of the period allowed for conversion. The converted policy does not include disability or dismemberment benefits.

**Interim Term Insurance:** If the employee: (a) is disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium" and (b) has not yet been approved for the Extended Life Benefit, the employee has the option to convert his or her coverage to an individual term life insurance policy. The individual term policy requires lower premiums than an individual permanent insurance policy.

This Interim term policy is available for only one year from the date the employee becomes disabled. During this year, if the employee is approved for the Extended Life Benefit, the interim term insurance is cancelled, as of our approval date. If, after one year, we have not approved the employee for the Extended Life Benefit, he or she must convert to an individual permanent life insurance policy, or coverage will end. Premiums for the individual permanent life insurance policy will be based on the employee's age as of the date he or she converts from the interim term insurance policy.

**How and When to Convert:** To get a converted policy, the employee must apply to us in writing and pay the required premium. He or she has 31 days after his or her group life insurance ends to do this. We won't ask for proof that he or she is insurable.

**Death During the Conversion Period:** If an employee dies in the 31 days allowed for conversion, we'll pay his or her beneficiary the amount he or she could have converted. We'll pay whether or not he or she applied for conversion.

GP-1-R-LCONV-99 P275.0061-R

***All Options***

**THE FOLLOWING PROVISION APPLIES TO EMPLOYEE OPTIONAL GROUP TERM LIFE INSURANCE:**

***All Options***

## Converting This Group Term Life Insurance

**If Employment or Eligibility Ends:** The employee's group life insurance ends if: (a) his or her employment ends; or (b) he or she stops being a member of an eligible class of employees. If either happens, the employee can convert his or her group life insurance to an individual life insurance policy. Conversion choices are based on the employee's disability status.

If the employee is not disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium", he or she can convert to a permanent life insurance policy. The employee can convert the amount for which he or she was covered under this plan, less any group life benefits he or she becomes eligible for in the 31 days after this insurance ends.

If the employee: (a) is disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium"; and (b) has not yet been approved for the Extended Life Benefit, he or she can convert to: (a) a permanent life insurance policy; or (b) an interim term insurance policy, as explained in the section labeled "Interim Term Insurance". The employee can convert the full amount for which he or she was covered under this plan.

If the disabled employee is later approved for the Extended Life Benefit, then the converted policy, if any, is cancelled as of our approval date.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

**If The Group Plan Ends or Group Life Insurance Is Dropped:** The employee's group life insurance also ends if: (a) this group plan ends; or (b) life insurance is dropped from the group plan for all employees or for his or her class. If either happens, the employee may be eligible to convert as explained below. Conversion choices are based on the employee's disability status.

If the employee: (a) is not disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium", when this coverage ends; and (b) the employee has been insured by a Guardian group life plan for at least five years, he or she can convert to a permanent life insurance policy. But, the amount the employee can convert is limited to the lesser of: (a) $10,000.00; or (b) the amount of his or her insurance under this plan, less any group life benefits he or she becomes eligible for in the 31 days after this insurance ends.

If the employee: (a) is disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium"; and (b) has not yet been approved for the Extended Life Benefit, he or she can convert to: (a) a permanent life insurance policy; or (b) an interim term insurance policy. The employee can convert the full amount for which he or she was covered under this plan.

If the disabled employee is later approved for the Extended Life Benefit, then the converted policy, if any, is cancelled as of our approval date.

**The Converted Policy:** The premium for the converted policy will be based on the employee's age on the converted policy's effective date. The converted policy will start at the end of the period allowed for conversion. The converted policy does not include disability or dismemberment benefits.

**Interim Term Insurance:** If the employee: (a) is disabled, as defined in the section labeled "Extended Life Benefit With Waiver of Premium" and (b) has not yet been approved for the Extended Life Benefit, the employee has the option to convert his or her coverage to an individual term life insurance policy. The individual term policy requires lower premiums than an individual permanent insurance policy.

This Interim term policy is available for only one year from the date the employee becomes disabled. During this year, if the employee is approved for the Extended Life Benefit, the interim term insurance is cancelled, as of our approval date. If, after one year, we have not approved the employee for the Extended Life Benefit, he or she must convert to an individual permanent life insurance policy, or coverage will end. Premiums for the individual permanent life insurance policy will be based on the employee's age as of the date he or she converts from the interim term insurance policy.

**How and When to Convert:** To get a converted policy, the employee must apply to us in writing and pay the required premium. He or she has 31 days after his or her group life insurance ends to do this. We won't ask for proof that he or she is insurable.

**Death During the Conversion Period:** If an employee dies in the 31 days allowed for conversion, we'll pay his or her beneficiary the amount he or she could have converted. We'll pay whether or not he or she applied for conversion.

GP-1-R-LCONV-99 P275.0061-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

## Employee Accelerated Life Benefit

**IMPORTANT NOTICE: USE OF THE BENEFIT PROVIDED BY THIS SECTION MAY HAVE TAX IMPLICATIONS AND MAY AFFECT GOVERNMENT BENEFITS OR CREDITORS. THE EMPLOYEE SHOULD CONSULT WITH HIS OR HER TAX OR FINANCIAL ADVISOR BEFORE APPLYING FOR THIS BENEFIT.**

**PLEASE NOTE: THE AMOUNT OF GROUP TERM LIFE INSURANCE IS PERMANENTLY REDUCED BY THE GROSS AMOUNT OF THE ACCELERATED LIFE BENEFIT PAID TO THE EMPLOYEE.**

**Accelerated Life Benefit:** If an employee has a medical condition that is expected to result in his or her death within 6 months, such employee may apply for an Accelerated Life Benefit. An Accelerated Life Benefit is a payment of part of an employee's group term life insurance made to him or her before he or she dies.

We subtract the gross amount paid to an employee as an Accelerated Life Benefit from the amount of his or her group term life insurance under this plan. The remaining amount of his or her group term life insurance is permanently reduced by the gross amount paid to the employee.

By "group term life insurance" we mean any Employee Basic Group Term Life Insurance for which an employee is insured under this plan. "Group term life insurance" does not mean Accidental Death and Dismemberment Benefits, any insurance provided under this plan for covered persons other than the employee or any scheduled increase in the amount of any Employee Group Term Life Insurance that is due within the six month period after the date the employee applies for the Accelerated Life Benefit.

By "gross amount" we mean the amount of an Accelerated Life Benefit elected by an employee, before the discount and the processing fee are subtracted.

For the purposes of this provision, "terminal condition" means a medical condition that is expected to result in the employee's death within 6 months.

The employee may use the Accelerated Life Benefit in any way he or she chooses. But he or she may receive only one Accelerated Life Benefit during his or her lifetime. If he or she lives longer than 6 months, or if he or she recovers from the condition, the benefit does not have to be repaid. But the amount of this benefit is not restored to the employee's remaining group term life insurance. And the employee may not receive another Accelerated Life Benefit if he or she has a relapse or develops another terminal condition.

**Maximum Benefit Amount:** The amount of the Accelerated Life Benefit for which the employee may apply is based on the amount of such employee's group term life insurance for which he or she is insured on the day before he or she applies for the benefit. The minimum benefit amount is the lesser of: (a) $10,000.00; or (b) 50% of the inforce amount. The maximum benefit amount is the lesser of: (a) $100,000.00; or (b) 50% of the inforce amount.

**Discount:** The amount for which the employee applies is discounted to the present value in six months from the date the benefit is paid, based on the maximum adjustable policy loan interest rate permitted in the state in which the employer is located.

A detailed statement of the method of computing the amount of the Accelerated Life Benefit is filed with each state insurance department. This statement is available from The Guardian upon request.

**Processing Fee:** A fee of up to $150.00 may also be required for the administrative cost of evaluating and processing an employee's Accelerated Life Benefit. This fee is deducted from the amount of the Accelerated Life Benefit paid to the employee.

**Payment of An Accelerated Life Benefit:** If we approve an employee's application for an Accelerated Life Benefit, we pay the amount he or she has elected, less the discount and the processing fee.We pay the benefit to the employee in one lump sum. And what we pay is subject to all of the other terms of this plan.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

**How And When To Apply:** To receive the Accelerated Life Benefit, the employee must send us written proof from a licensed doctor who is operating within the scope of his or her license that the employee's medical condition is expected to result in such employee's death within 6 months of the date of the written medical proof. We must approve such proof in writing before the Accelerated Life Benefit will be paid.

We can have the employee examined by a doctor of our choice to verify the terminal condition. We'll pay the cost of such examination. We will not pay the Accelerated Life Benefit if our doctor does not verify the terminal condition.

If we approve an employee to receive an Accelerated Life Benefit, we give the employee a statement which shows: (a) the amount of the maximum Accelerated Life Benefit for which the employee is eligible; and (b) the amount by which the employee's group term life insurance will be reduced if he or she elects to receive the maximum Accelerated Life Benefit; and (c) the amount of the processing fee.

Even if an employee is receiving an Extended Life Benefit under this plan, he or she can still apply for an Accelerated Life Benefit. However, once an employee converts his or her group term life insurance, the terms of the converted life policy will apply. Any amount to which the employee could otherwise convert is permanently reduced by the gross amount of the Accelerated Life Benefit paid to the employee.

Please read "The Employee's Remaining Group Term Life Insurance" provision for restrictions that may apply.

**If An Employee Has Assigned His or Her Group Term Life Insurance:** If an employee has already assigned his or her group term life insurance, according to the terms of this plan, he or she can't apply for an Accelerated Life Benefit.

**If The Employee Is Incompetent:** If the employee is determined to be legally incompetent, the person the court appoints to handle the employee's legal affairs may apply for the Accelerated Life Benefit for the employee.

**The Employee's Remaining Group Term Life Insurance:** The remaining amount of group term life insurance for which an employee is covered after receiving an Accelerated Life Benefit payment is subject to any increases or cutbacks that would otherwise apply to the employee's insurance. Applicable cutbacks are applied to the amount of group term life insurance for which the employee is insured on the day before he or she applies for the Accelerated Life Benefit.

The premium cost of the employee's remaining coverage is based on the amount of his or her group term life insurance for which he or she is insured on the day before he or she applies for the Accelerated Life Benefit.

The employee may be required to provide proof of insurability for increased amounts. If he or she is, we must approve that proof in writing before the employee is covered for the new amount.

The total amount of group term life insurance the beneficiary would otherwise receive upon the employee's death is reduced by the gross amount of the Accelerated Life Benefit paid to the employee.

If the employee dies after electing the Accelerated Life Benefit, but before we send the benefit to him or her, the beneficiary will receive the amount of the employee's group term life insurance for which such employee is insured on the day before he or she applies for the Accelerated Life Benefit.

**Restrictions:** We will not pay an Accelerated Life Benefit to an employee who:

- is required by law to use the payment to meet the claims of creditors, whether or not the employee is in bankruptcy; or
- is required by court order to pay all or part of the benefit to another person; or
- is required by a government agency to use the payment to apply for, to receive or to maintain a governmental benefit or entitlement; or
- loses his or her coverage under the group plan for any reason after he or she elects the Accelerated Life Benefit but before we pay such benefit to him or her.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

**Extended Life Benefit With Waiver of Premium**

**Important Notice:** This section applies to the employee's basic life benefit. But, it does not apply to his or her accidental death and dismemberment benefits; nor to any of his or her dependent's insurance under this group plan. In order to continue dependent basic life insurance, the employee must convert his or her dependent coverage. To convert dependent coverage, he or she must choose an individual permanent policy.

**If an Employee Is Disabled:** An employee is disabled if he or she meets the definition of total disability, as stated below. If a disabled employee meets the requirements in the "How and When to Apply" provision, we'll extend his or her basic life insurance under this section without payment of premiums from you or the employee.

Total Disability or Totally Disabled means, due to sickness or injury, an employee is:

(a) not able to perform any work for wages or profit; and

(b) he or she is receiving regular doctor's care appropriate to the cause of disability.

**How and When To Apply:** To apply for this extension, the employee must submit acceptable written medical proof of his or her total disability. He or she must provide this proof within one year of the onset of that disability. Any claim filed after one year from the onset of total disability will be denied. We will deny the claim unless we receive written proof that: (a) the employee lacked the legal capacity to file the claim; or (b) it was not reasonably possible for the employee to file the claim.

Also, in order to be eligible for this extension, the employee must:

(a) become totally disabled before he or she reaches age 60 and while insured by the group plan; and

(b) remain totally disabled for nine continuous months.

The employee may apply for this benefit immediately upon the onset of disability.

**Continued Eligibility For Extended Life Benefit:** We require periodic written proof that the employee remains totally disabled to maintain this extension. This written proof of the employee's: (a) continued disability; and (b) doctor's care, must be provided to us within 30 days of the date we make each such request.

We can require the employee to take part in a medical assessment, with a medical specialist of our choice. During the first two years of this extension, we may require this as often as we feel is reasonably necessary. But after two years, we can't have the employee examined more than once a year.

**Until We've Approved an Employee for this Extended Life Benefit:** An employee's life insurance under the group plan may end after he or she's become totally disabled, but before we've approved him or her for this extension. During this time period, the employee may either:

(a) continue group premium payments, including any portion which would have been paid by the employer, until he or she is approved or declined for this extended life benefit; or

(b) convert to an individual permanent or term policy. Please read the section labeled "Converting This Group Term Life Insurance" for details on how to convert.

However, the employee must convert if: (i) this group plan terminates; and (ii) he or she is totally disabled and eligible, but not yet approved, for this extended benefit. He or she must remain insured under such policy until approved by us for the extended benefit.

Converting does not stop the employee from claiming his or her rights under this section. But if he or she converts and we later approve him or her for this extended benefit, we'll cancel the converted policy as of our approval date. Once an employee is approved for this extended benefit, his or her group term life coverage will be reinstated at no further cost to you or the employee.

**When This Extension Begins:** Once approved by us, an employee's extended benefit will be effective on the later of:

(a) nine continuous months from the date active full-time service ends due to total disability; or

(b) the date we approve the employee for this benefit.

GP-1-R-LW-TD-99-1-MD P275.0063-R

***All Options***

**When This Extension Ends:** An employee's extension will end on the earliest of:

(a) the date he or she is no longer disabled;

(b) the date we ask an employee to be examined by our doctor, and he or she refuses;

(c) the date the employee does not give us the proof of disability we require;

(d) the date the employee is no longer receiving regular doctor's care appropriate to the cause of disability; or

(e) the day before the date the employee reaches age 65.

If the extension ends, and the employee is not insured by the group plan again as an active full-time employee, the employee can convert as if his or her employment just ended. Read the section labeled "Converting This Group Term Life Insurance".

**If an Employee Dies While Covered By This Extension:** If an employee dies while covered by this extension we'll pay his or her beneficiary the amount for which he or she was covered as of his or her last day of active full-time work, subject to all reductions which would have applied had he or she stayed an active employee.

**Proof of Death:** We'll pay as soon as we receive:

(a) written proof of the employee's death, that is acceptable to us; and

(b) medical proof that the employee was continuously disabled until his or her death. This must be sent within one year of the employee's death.

GP-1-R-LW-TD-99-2 P275.0049-R

***All Options***

**LifeAssist**

An employee who is eligible for this plan's Basic Life Extended Life Benefit may also be eligible for the LifeAssist benefit.

**When and How The LifeAssist Benefit Begins:** An employee becomes eligible for LifeAssist benefits when all of the following conditions are met:

(a) he or she is eligible for this plan's Basic Life Extended Life Benefit; and

(b) he or she is functionally disabled, as defined below; and

(c) he or she has been insured under this Basic Life plan for at least 24 consecutive months, prior to the start of his or her disability.

Functional Disability or Functionally Disabled means, due to sickness or injury, an employee is:

(a) not able to perform 2 or more activities of daily living on a routine basis, without help; or

(b) cognitively impaired and needs verbal cueing to protect him/herself or others; and he or she is:

(c) receiving regular doctor's care appropriate to the cause of disability; and

(d) not working for wage or profit.

Activities of Daily Living means:

(1) Bathing: the ability to wash in a tub or shower; or by taking a sponge bath; and to towel dry, with or without equipment or adaptive devices.

(2) Dressing: the ability to put on and take off all clothes; and those medically necessary braces or prosthetic limbs usually worn; and also to fasten or unfasten them.

(3) Toileting: the ability to get to and from and on and off the toilet; to maintain personal hygiene; and to care for clothes.

(4) Transferring: the ability to move in and out of a chair or bed with or without equipment such as: canes; walkers; crutches; grab bars; or any other support devices.

(5) Continence: the ability to control bowel and bladder function; or, in event of incontinence, the ability to maintain personal hygiene.

(6) Eating: the ability to get food into the body by any means once it has been prepared and made available.

Cognitively impaired means a decline or loss in intellectual aptitude. Such loss may result from: (a) injury; (b) sickness; (c) Alzheimer's disease; or (d) similar forms of senility or irreversible dementia. It must be supported by clinical proof and standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Payment of Benefits:** We pay this benefit monthly, in arrears. We pay benefits to the employee if he or she is legally competent. If he or she is not, we pay benefits to the legal representative of his or her estate.

**What We Pay:** Subject to all the terms of this plan, the monthly LifeAssist benefit is equal to 1% of the employee's Basic Life Extended Life Benefit, to a monthly maximum of $2,000.00.

Payments are made based on a 30 day month. An employee may be eligible for the LifeAssist benefit for only part of a month. In such case, we compute the benefit payable as 1/30th of the monthly benefit times the number of days he or she is eligible for this benefit.

While an employee is approved for the Basic Life Extended Life Benefit, if his or her life insurance coverage is reduced under the extension, the amount of the LifeAssist benefit is reduced accordingly.

**Continued Eligibility For The LifeAssist Benefit:** We may require periodic written proof that the employee remains functionally disabled. This written proof of the employee's continued disability and regular doctor's care must be provided to us within 30 days of the date we make each such request.

We can require the employee to take part in a medical assessment, with a medical professional of our choice, as often as we feel is reasonably necessary.

**When The LifeAssist Benefit Ends:** We stop paying this benefit on the earliest of the following dates:

(a) the date the employee is no longer functionally disabled;

(b) the date the employee is no longer eligible for this Basic Life plan's Extended Life Benefit;

(c) the date we ask an employee to take part in a medical assessment and he or she refuses;

(d) the date the employee does not give us proof of disability we require;

(e) the date the employee is no longer receiving regular doctor's care appropriate to the disability; and

(f) the date the lifetime maximum LifeAssist benefit is reached.

The lifetime maximum LifeAssist benefit payments to be made to an employee by this plan are 100 months of benefit payments.

GP-1-R-LSUPP-99 P275.0052-R

***All Options***

**Extended Life Benefit With Waiver of Premium**

**Important Notice:** This section applies to the employee's optional life benefit. But, it does not apply to his or her accidental death and dismemberment benefits; nor to any of his or her dependent's insurance under this group plan. In order to continue dependent optional life insurance, the employee must convert his or her dependent coverage. To convert dependent coverage, he or she must choose an individual permanent policy.

**If an Employee is Disabled:** An employee is disabled if he or she meets the definition of total disability, as stated below. If a disabled employee meets the requirements in the "How and When to Apply" provision, we'll extend his or her optional life insurance under this section without payment of premiums from you or the employee.

Total Disability or Totally Disabled means, due to sickness or injury, an employee is:

(a) not able to perform any work for wages or profit; and

(b) he or she is receiving regular doctor's care appropriate to the cause of disability.

**How and When To Apply:** To apply for this extension, the employee must submit acceptable written medical proof of his or her total disability. He or she must provide this proof within one year of the onset of that disability. Any claim filed after one year from the onset of total disability will be denied. We will deny the claim unless we receive written proof that: (a) the employee lacked the legal capacity to file the claim; or (b) it was not reasonably possible for the employee to file the claim.

Also, in order to be eligible for this extension, the employee must:

(a) become totally disabled before he or she reaches age 60 and while insured by the group plan; and

(b) remain totally disabled for nine continuous months.

The employee may apply for this benefit immediately upon the onset of disability.

**Continued Eligibility For Extended Life Benefit:** We require periodic written proof that the employee remains totally disabled to maintain this extension. This written proof of the employee's: (a) continued disability; and (b) doctor's care, must be provided to us within 30 days of the date we make each such request.

We can require the employee to take part in a medical assessment, with a medical specialist of our choice. During the first two years of this extension, we may require this as often as we feel is reasonably necessary. But after two years, we can't have the employee examined more than once a year.

**Until We've Approved an Employee for this Extended Life Benefit:** An employee's life insurance under the group plan may end after he or she's become totally disabled, but before we've approved him or her for this extension. During this time period, the employee may either:

(a) continue group premium payments, including any portion which would have been paid by the employer, until he or she is approved or declined for this extended life benefit; or

(b) convert to an individual permanent or term policy. Please read the section labeled "Converting This Group Term Life Insurance" for details on how to convert.

However, the employee must convert if: (i) this group plan terminates; and (ii) he or she is totally disabled and eligible, but not yet approved, for this extended benefit. He or she must remain insured under such policy until approved by us for the extended benefit.

Converting does not stop the employee from claiming his or her rights under this section. But if he or she converts and we later approve him or her for this extended benefit, we'll cancel the converted policy as of our approval date. Once an employee is approved for this extended benefit, his or her group term life coverage will be reinstated at no further cost to you or the employee.

**When This Extension Begins:** Once approved by us, an employee's extended benefit will be effective on the later of:

(a) nine continuous months from the date active full-time service ends due to total disability; or

(b) the date we approve the employee for this benefit.

GP-1-R-LW-TD-99-1-MD P275.0065-R

***All Options***

**When This Extension Ends:** An employee's extension will end on the earliest of:

(a) the date he or she is no longer disabled;

(b) the date we ask an employee to be examined by our doctor, and he or she refuses;

(c) the date the employee does not give us the proof of disability we require;

(d) the date the employee is no longer receiving regular doctor's care appropriate to the cause of disability; or

(e) the day before the date the employee reaches age 65.

If the extension ends, and the employee is not insured by the group plan again as an active full-time employee, the employee can convert as if his or her employment just ended. Read the section labeled "Converting This Group Term Life Insurance".

**If an Employee Dies While Covered By This Extension:** If an employee dies while covered by this extension we'll pay his or her beneficiary the amount for which he or she was covered as of his or her last day of active full-time work, subject to all reductions which would have applied had he or she stayed an active employee.

**Proof of Death:** We'll pay as soon as we receive:

(a) written proof of the employee's death, that is acceptable to us; and

(b) medical proof that the employee was continuously disabled until his or her death. This must be sent within one year of the employee's death.

GP-1-R-LW-TD-99-2 P275.0049-R

***All Options***

**LifeAssist**

An employee who is eligible for this plan's Optional Life Extended Life Benefit may also be eligible for the LifeAssist benefit.

**When and How The LifeAssist Benefit Begins:** An employee becomes eligible for LifeAssist benefits when all of the following conditions are met:

(a) he or she is eligible for this plan's Optional Life Extended Life Benefit; and

(b) he or she is functionally disabled, as defined below; and

(c) he or she has been insured under this Optional Life plan for at least 24 consecutive months, prior to the start of his or her disability.

Functional Disability or Functionally Disabled means, due to sickness or injury, an employee is:

(a) not able to perform 2 or more activities of daily living on a routine basis, without help; or

(b) cognitively impaired and needs verbal cueing to protect him/herself or others; and

he or she is:

(c) receiving regular doctor's care appropriate to the cause of disability; and

(d) not working for wage or profit.

Activities of Daily Living means:

(1) Bathing: the ability to wash in a tub or shower; or by taking a sponge bath; and to towel dry, with or without equipment or adaptive devices.

(2) Dressing: the ability to put on and take off all clothes; and those medically necessary braces or prosthetic limbs usually worn; and also to fasten or unfasten them.

(3) Toileting: the ability to get to and from and on and off the toilet; to maintain personal hygiene; and to care for clothes.

(4) Transferring: the ability to move in and out of a chair or bed with or without equipment such as: canes; walkers; crutches; grab bars; or any other support devices.

(5) Continence: the ability to control bowel and bladder function; or, in event of incontinence, the ability to maintain personal hygiene.

(6) Eating: the ability to get food into the body by any means once it has been prepared and made available.

Cognitively impaired means a decline or loss in intellectual aptitude. Such loss may result from: (a) injury; (b) sickness; (c) Alzheimer's disease; or (d) similar forms of senility or irreversible dementia. It must be supported by clinical proof and standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Payment of Benefits:** We pay this benefit monthly, in arrears. We pay benefits to the employee if he or she is legally competent. If he or she is not, we pay benefits to the legal representative of his or her estate.

**What We Pay:** Subject to all the terms of this plan, the monthly LifeAssist benefit is equal to 1% of the employee's Optional Life Extended Life Benefit, to a monthly maximum of $2,000.00.

Payments are made based on a 30 day month. An employee may be eligible for the LifeAssist benefit for only part of a month. In such case, we compute the benefit payable as 1/30th of the monthly benefit times the number of days he or she is eligible for this benefit.

While an employee is approved for the Optional Life Extended Life Benefit, if his or her life insurance coverage is reduced under the extension, the amount of the LifeAssist benefit is reduced accordingly.

**Continued Eligibility For The LifeAssist Benefit:** We may require periodic written proof that the employee remains functionally disabled. This written proof of the employee's continued disability and regular doctor's care must be provided to us within 30 days of the date we make each such request.

We can require the employee to take part in a medical assessment, with a medical professional of our choice, as often as we feel is reasonably necessary.

**When The LifeAssist Benefit Ends:** We stop paying this benefit on the earliest of the following dates:

(a) the date the employee is no longer functionally disabled;

(b) the date the employee is no longer eligible for this Optional Life plan's Extended Life Benefit;

(c) the date we ask an employee to take part in a medical assessment and he or she refuses;

(d) the date the employee does not give us proof of disability we require;

(e) the date the employee is no longer receiving regular doctor's care appropriate to the disability; and

(f) the date the lifetime maximum LifeAssist benefit is reached.

The lifetime maximum LifeAssist benefit payments to be made to an employee by this plan are 100 months of benefit payments.

GP-1-R-LSUPP-99 P275.0053-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

## COMPUTATION OF GROUP LIFE INSURANCE PREMIUMS

**Definitions:**

"Plan" means the Guardian group life insurance plan purchased by the employer.

"We", "us", and "our" mean the Guardian Life Insurance Company of America.

"You" and "your" mean the employer who purchased this plan.

**How Group Life Rates Are Computed:**

The "Table of Individual Rates" shown below will, subject to our rating methods, be used in computing the premium charges for this plan's group life insurance. As stated in this plan's "Premiums" section, we can change that table.

When this plan's group life insurance starts, we'll compute a preliminary monthly rate. We do this by: (1) multiplying the individual rates by the amounts of insurance in force at the respective ages, nearest birthday, of all employees; and (2) dividing the result by the total amount of insurance in force. Using the characteristics of your group, and our rating methods, we'll modify such preliminary rate and compute your final premium rate.

We may also compute your final premium rate by any other method we and you agree upon, which produces approximately the same total premium.

**If We Provide Supplemental Term Life Insurance:** If we provide Supplemental Term Life Insurance, we'll use the employee's rated age to compute premium rates, if the employee is placed in a substandard class.

**If You Pay Monthly Premiums:** If you pay monthly premiums, each monthly payment will be equal to the product of the total amount of insurance in force on the premium's due date and the monthly rate in effect for each employee.

**If You Pay Annual, Semi-Annual, or Quarterly Premiums:** If you pay annual, semi-annual or quarterly premiums, we'll compute the applicable rate by multiplying the monthly rate so obtained by 11.823, 5.956, or 2.985, respectively.

**Table of Individual Rates**
Group Term Life Insurance
Monthly Premiums Per $1,000.00 of Employee Life Insurance

| Age Nearest Birthday | Monthly Rate | Age Nearest Birthday | Monthly Rate | Age Nearest Birthday | Monthly Rate | Age Nearest Birthday | Monthly Rate |
|---|---|---|---|---|---|---|---|
| 15 | $ .19 | 32 | $ .28 | 49 | $ .97 | 66 | $ 4.11 |
| 16 | .20 | 33 | .29 | 50 | 1.06 | 67 | 4.48 |
| 17 | .21 | 34 | .30 | 51 | 1.16 | 68 | 4.89 |
| 18 | .22 | 35 | .32 | 52 | 1.26 | 69 | 5.34 |
| 19 | .23 | 36 | .34 | 53 | 1.38 | 70 | 5.81 |
| 20 | .23 | 37 | .36 | 54 | 1.51 | 71 | 6.32 |
| 21 | .24 | 38 | .38 | 55 | 1.65 | 72 | 6.84 |
| 22 | .24 | 39 | .41 | 56 | 1.80 | 73 | 7.38 |
| 23 | .25 | 40 | .45 | 57 | 1.97 | 74 | 7.95 |
| 24 | .25 | 41 | .49 | 58 | 2.14 | 75 | 8.56 |
| 25 | .25 | 42 | .53 | 59 | 2.32 | 76 | 9.24 |
| 26 | .25 | 43 | .58 | 60 | 2.51 | 77 | 10.00 |
| 27 | .26 | 44 | .63 | 61 | 2.72 | 78 | 10.86 |

| Age Nearest Birthday | Monthly Rate | Age Nearest Birthday | Monthly Rate | Age Nearest Birthday | Monthly Rate | Age Nearest Birthday | Monthly Rate |
|---|---|---|---|---|---|---|---|
| 28 | .26 | 45 | .68 | 62 | 2.96 | 79 | 11.81 |
| 29 | .26 | 46 | .74 | 63 | 3.21 | 80 | 12.83 |
| 30 | .27 | 47 | .81 | 64 | 3.48 | | |
| 31 | .27 | 48 | .89 | 65 | 3.78 | | |

Upon request we will furnish rates for ages not shown.

**Employee Contributions:** Employees' required contributions towards the cost of this insurance may not vary solely by sex.

**When Rates Can Be Changed:** We or you may require appropriate rate changes on each Policy Anniversary after the effective date of this plan, or on any date on which the above table is changed.

GP-1-R-LRMP-86-1 P270.0023-R

***All Options***

## Employee Basic Accidental Death And Dismemberment With Catastrophic Loss Benefits

**The Benefit:** We'll pay the benefits described below if an employee suffers an irreversible covered loss due to an accident that occurs while he or she is insured. The loss must be a direct result of the accident, independent of all other causes. And, it must occur within 90 days of the date of the accident.

**Covered Losses:** Benefits will be only for losses identified in the following table. The Insurance Amount is shown in the Schedule of Benefits.

**ACCIDENTAL DEATH AND DISMEMBERMENT**

| Covered Loss | Benefit |
|---|---|
| Loss of Life | 100% of Insurance Amount |
| Loss of a hand | 50% of Insurance Amount |
| Loss of a foot | 50% of Insurance Amount |
| Loss of sight in one eye | 50% of Insurance Amount |
| Loss of thumb and index finger of same hand | 25% of Insurance Amount |

**CATASTROPHIC LOSS BENEFITS**

| Covered Loss | Benefit |
|---|---|
| Quadriplegia (total paralysis of upper and lower limbs, bilaterally) | 100% of Insurance Amount |
| Loss of speech and hearing (both ears) | 100% of Insurance Amount |
| Loss of cognitive function | 100% of Insurance Amount |
| Comatose state, in excess of one month | 100% of Insurance Amount |
| Hemiplegia (total paralysis of upper and lower limbs, unilaterally) | 50% of Insurance Amount |
| Paraplegia (total paralysis of both lower limbs) | 50% of Insurance Amount |
| Loss of speech or hearing (both ears) | 50% of Insurance Amount |

For covered multiple losses due to the same accident, we will pay 100% of the Insurance Amount. We won't pay more than 100% of the Insurance Amount for all losses due to the same accident, except under the Common Carrier, Seatbelt and Airbag Benefit, and the Repatriation Benefit provisions.

Loss of:

(a) cognitive function means a significant decline or loss in intellectual aptitude. Such loss must result from an accidental injury. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

(b) a hand or foot means it is completely cut off at or above the wrist or ankle.

(c) sight means the total and permanent loss of sight.

(d) speech or hearing means that speech or hearing is lost entirely.

**Payment of Benefits:** For covered loss of life, we pay the beneficiary of the employee's basic group term life insurance.

For all other covered losses, we pay the employee, if he or she is living. If not, we pay the beneficiary of the employee's basic group term life insurance.

We pay all benefits in a lump sum, as soon as we receive proof of loss which is acceptable to us. This should be sent to us as soon as possible.

GP-1-R-ADCL1-00 P310.0411-R

***All Options***

**Seatbelt and Airbag Benefits:** If the employee dies as a direct result of a motor vehicle accident while properly wearing a seatbelt, we will increase his or her benefit by $10,000.00. And if the employee dies as a direct result of a motor vehicle accident while both: (a) properly wearing a seatbelt; and (b) sitting in a seat equipped with an airbag; we'll increase his or her benefit by another $5,000.00, for a total increase of $15,000.00. This benefit will be applied after the Common Carrier provision.

**Common Carrier:** If the employee's loss is due to an accident which occurs while he or she is riding in a public conveyance, we increase the benefit payable. We pay two times the amount which otherwise applies to such loss. But, he or she must have been a fare-paying passenger.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

**Repatriation Benefit:** For covered loss of life due to an accident which occurs at least 75 miles from the employee's home, we pay an extra sum. We pay up to $5,000.00 for costs to prepare and transport the body to a mortuary chosen by the employee or an authorized agent.

**Exclusions:** We won't pay for any loss caused directly or indirectly:

- by willful self-injury, suicide, or attempted suicide;
- by sickness, disease, mental infirmity, medical or surgical treatment;
- by the employee taking part in a riot or other civil disorder; or in the commission of or attempt to commit a felony;
- by travel on any type of aircraft if the employee is an instructor or crew member; or has any duties at all on that aircraft;
- by declared or undeclared war or act of war or armed aggression;
- while the employee is a member of any armed force;
- while the employee is a driver in a motor vehicle accident, if he or she does not hold a current and valid driver's license;
- by the employee's legal intoxication; this includes, but is not limited to, the employee's operation of a motor vehicle; or
- by the employee's voluntary use of a controlled substance, unless: (1) it was prescribed for the employee by a doctor; and (2) it was used as prescribed. A controlled substance is anything called a controlled substance in Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, as amended from time to time.

GP-1-R-ADCL2-00 P310.0418-R

***All Options***

**SPOUSAL EDUCATION AND RETRAINING BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay a spousal education and retraining benefit subject to all the terms below.

**When and How the Spousal Education and Retraining Benefit Begins:** We will pay a spousal education and retraining benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Employee Basic Accidental Death and Dismemberment with Catastrophic Loss (ADDCL) Benefit, due to a specified loss; and

(b) on the date of the accidental injury which results in the specified loss, the employee and spouse share the same place of residence;

(c) we receive proof of the spouse's enrollment in an institute of higher learning. The spouse must: (i) be enrolled on the date of the accidental injury which results in the specified loss; or (ii) enroll within 12 months of this date.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Spousal Education and Retraining Benefit per academic term is equal to the lesser of: (i) the spouse's net tuition expense for the term; (ii) 5% of the Employee Basic ADDCL Benefit paid as a result of the specified loss; and (iii) $2,500.00.

**Tuition Expense** means charges incurred for courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the spouse is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total spousal education benefit paid will not exceed the spouse's net tuition expense for the term.

We pay this benefit to the person who has primary responsibility for these expenses.

This benefit is paid per academic term. Benefit duration is based on whether the spouse is enrolled in a part-time or full-time course of study. See the Employee Basic Accidental Death and Dismemberment Insurance Schedule of Benefits.

**Continued Eligibility for the Spousal Education and Retraining Benefit:** We require periodic proof of the spouse's continued enrollment in an institute of higher learning. The spouse must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent. We also require proof, per academic term, of: (a) the spouse's tuition expenses; and (b) any scholarships and grants the spouse is entitled to.

**When the Spousal Education and Retraining Benefit Ends:** The spousal education and retraining benefit ends on the earliest of the following dates:

(a) the date the spouse is no longer enrolled in an institute of higher learning;

(b) the date the spouse fails to maintain a minimum grade point average as required above;

(c) the date the spouse fails to furnish proof as required above;

(d) the date the lifetime maximum benefit amount, shown in the schedule, is reached; and

(e) the date the maximum number of benefit payments, shown in the schedule, is reached.

GP-1-R-ESED-00 P310.0420-R

***Option A***

**DAY CARE EXPENSE BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay a Day Care Expense Benefit subject to all the terms below.

**Eligibility for the Day Care Expense Benefit:** This plan provides a day care expense benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Employee Basic Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss; and

(b) we receive proof of a qualified dependent's enrollment in a qualified day care program. Such enrollment must commence within 12 months of the date of the specified loss.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** For purposes of the Day Care Expense Benefit a qualified dependent is: (a) an employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) dependent upon the employee for main support and maintenance; and (c) under the age of seven on the date of the accidental injury which results in the specified loss.

**Qualified Day Care Program:** means a program of child care which: (i) is provided in a facility that is licensed as a day care center; or (ii) is operated by a licensed day care provider; and (iii) charges a fee for the care of children. A qualified day care program does not include child care provided by a parent, step-parent, grandparent, sibling, aunt or uncle.

**What We Pay:** Subject to all the terms of this plan, the Day Care Expense Benefit is equal to the lesser of: (i) $10,000 annually; or (ii) the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

We pay this benefit quarterly, in arrears, upon receipt of proof of qualified day care expenses. Proof should be submitted within 30 days following the end of each calendar year quarter.

Payment will be made to the person who has primary responsibility for these expenses.

**Continued Eligibility for the Day Care Expense Benefit:** We require periodic proof that a qualified dependent remains enrolled in a qualified day care program. We require periodic proof of the qualified dependent's day care expenses.

**When the Day Care Expense Benefit Ends:** This plan's Day Care Expense Benefits end on the earliest of the following dates:

(a) the date the dependent is no longer qualified, as defined above;

(b) the date the dependent is no longer enrolled in a qualified day care program;

(c) the date we do not receive proof of qualified day care expenses, as required by this plan; and

(d) four years from the date the first day care expense benefit is paid.

GP-1-R-EDCXB-00 P310.0424-R

***Option B***

**DAY CARE EXPENSE BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay a Day Care Expense Benefit subject to all the terms below.

**Eligibility for the Day Care Expense Benefit:** This plan provides a day care expense benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Employee Basic Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss; and

(b) we receive proof of a qualified dependent's enrollment in a qualified day care program. Such enrollment must commence within 12 months of the date of the specified loss.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** For purposes of the Day Care Expense Benefit a qualified dependent is: (a) an employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) dependent upon the employee for main support and maintenance; and (c) under the age of seven on the date of the accidental injury which results in the specified loss.

**Qualified Day Care Program:** means a program of child care which: (i) is provided in a facility that is licensed as a day care center; or (ii) is operated by a licensed day care provider; and (iii) charges a fee for the care of children. A qualified day care program does not include child care provided by a parent, step-parent, grandparent, sibling, aunt or uncle.

**What We Pay:** Subject to all the terms of this plan, the Day Care Expense Benefit is equal to the lesser of: (i) $10,000 annually; or (ii) the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both an Employee ADDCL plan and a Dependent ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

We pay this benefit quarterly, in arrears, upon receipt of proof of qualified day care expenses. Proof should be submitted within 30 days following the end of each calendar year quarter.

Payment will be made to the person who has primary responsibility for these expenses.

**Continued Eligibility for the Day Care Expense Benefit:** We require periodic proof that a qualified dependent remains enrolled in a qualified day care program. We require periodic proof of the qualified dependent's day care expenses.

**When the Day Care Expense Benefit Ends:** This plan's Day Care Expense Benefits end on the earliest of the following dates:

(a) the date the dependent is no longer qualified, as defined above;

(b) the date the dependent is no longer enrolled in a qualified day care program;

(c) the date we do not receive proof of qualified day care expenses, as required by this plan; and

(d) four years from the date the first day care expense benefit is paid.

GP-1-R-EDCXB-00 P310.0425-R

***Option A***

**DEPENDENT CHILD EDUCATION BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay an education benefit on behalf of a qualified dependent, subject to all the terms below.

**When and How the Dependent Child Education Benefit Begins:** We will pay a Dependent Child Education Benefit when all of the following conditions are met:

(a) A benefit is payable under this plan's Employee Basic Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss;

(b) We receive proof of a qualified dependent's enrollment in an institute of higher learning. The dependent must be a full-time student, as defined by the institute.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury which results in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury which results in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** To be qualified for the Dependent Child Education Benefit, a dependent must meet the following conditions. The dependent must be: (a) the employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) unmarried; and (c) dependent upon the employee for main support and maintenance. On the date of the accidental injury which results in the specified loss, the dependent must be: (a) 22 years of age or younger; and (b) enrolled as a full-time student in an institute of higher learning; or (c) in the 12th grade, and enroll as a full-time student in an institute of higher learning within 12 months of this date. The dependent must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Dependent Child Education Benefit per academic term is equal to the lesser of: (i) the qualified dependent's net tuition expense for the term; (ii) 5% of the Basic ADDCL Benefit paid as a result of the specified loss; or (iii) $2,500.00.

**Tuition Expense** means charges incurred for credit courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the dependent is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

We pay this benefit per academic term for each qualified dependent.

We pay this benefit to the person who has primary responsibility for these expenses.

**Continued Eligibility for Dependent Education Benefit:** We require periodic proof that a dependent remains a qualified dependent, as defined above. We also require proof, per academic term, of: (a) the qualified dependent's tuition expenses; and (b) any scholarships and grants the dependent is entitled to.

**When the Dependent Child Education Benefit Ends:** A qualified dependent's Dependent Child Education Benefit ends on the earliest of the following dates:

(a) the date the dependent child is no longer a qualified dependent, as defined above;

(b) the date the dependent fails to furnish proof as required above;

(c) the date the lifetime maximum benefit amount, shown in the schedule, is reached;

(d) the date the maximum number of benefit payments, shown in the schedule, is reached; and

(e) the date the maximum benefit period, shown in the schedule, is reached.

GP-1-R-EDCED-00 P310.0431-R

***Option B***

**DEPENDENT CHILD EDUCATION BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay an education benefit on behalf of a qualified dependent, subject to all the terms below.

**When and How the Dependent Child Education Benefit Begins:** We will pay a Dependent Child Education Benefit when all of the following conditions are met:

(a) A benefit is payable under this plan's Employee Basic Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss;

(b) We receive proof of a qualified dependent's enrollment in an institute of higher learning. The dependent must be a full-time student, as defined by the institute.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury which results in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury which results in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** To be qualified for the Dependent Child Education Benefit, a dependent must meet the following conditions. The dependent must be: (a) the employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) unmarried; and (c) dependent upon the employee for main support and maintenance. On the date of the accidental injury which results in the specified loss, the dependent must be: (a) 22 years of age or younger; and (b) enrolled as a full-time student in an institute of higher learning; or (c) in the 12th grade, and enroll as a full-time student in an institute of higher learning within 12 months of this date. The dependent must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Dependent Child Education Benefit per academic term is equal to the lesser of: (i) the qualified dependent's net tuition expense for the term; (ii) 5% of the Basic ADDCL Benefit paid as a result of the specified loss; or (iii) $2,500.00.

**Tuition Expense** means charges incurred for credit courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the dependent is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

If this benefit is payable under both an Employee ADDCL plan and a Dependent ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

We pay this benefit per academic term for each qualified dependent.

We pay this benefit to the person who has primary responsibility for these expenses.

**Continued Eligibility for Dependent Education Benefit:** We require periodic proof that a dependent remains a qualified dependent, as defined above. We also require proof, per academic term, of: (a) the qualified dependent's tuition expenses; and (b) any scholarships and grants the dependent is entitled to.

**When the Dependent Child Education Benefit Ends:** A qualified dependent's Dependent Child Education Benefit ends on the earliest of the following dates:

(a) the date the dependent child is no longer a qualified dependent, as defined above;

(b) the date the dependent fails to furnish proof as required above;

(c) the date the lifetime maximum benefit amount, shown in the schedule, is reached;

(d) the date the maximum number of benefit payments, shown in the schedule, is reached; and

(e) the date the maximum benefit period, shown in the schedule, is reached.

GP-1-R-EDCED-00 P310.0432-R

***All Options***

## Employee Voluntary Accidental Death And Dismemberment With Catastrophic Loss Benefits

**The Choices:** The employee may elect to be insured for any of the plans of employee voluntary accidental death and dismemberment with catastrophic loss (ADDCL) insurance offered by you. These plans are shown in the schedule. However, the employee can only be insured under one plan at a time. The employee must notify you of his or her election and pay the required premium.

The employee may switch to another plan of benefits at any time, subject to any of this plan's proof of insurability requirements. The employee must notify you of any desired switch.

**The Benefit:** We'll pay the benefits described below if an employee suffers an irreversible covered loss due to an accident that occurs while he or she is insured. The loss must be a direct result of the accident, independent of all other causes. And, it must occur within 90 days of the date of the accident.

**Covered Losses:** Benefits will be paid according to the plan the employee has elected, only for losses identified in the following table. The Insurance Amount is shown in the Schedule of Benefits.

**ACCIDENTAL DEATH AND DISMEMBERMENT**

| **Covered Loss** | **Benefit** |
|---|---|
| Loss of Life | 100% of Insurance Amount |
| Loss of a hand | 50% of Insurance Amount |
| Loss of a foot | 50% of Insurance Amount |
| Loss of sight in one eye | 50% of Insurance Amount |
| Loss of thumb and index finger of same hand | 25% of Insurance Amount |

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

**CATASTROPHIC LOSS BENEFITS**

| Covered Loss | Benefit |
|---|---|
| Quadriplegia (total paralysis of upper and lower limbs, bilaterally) | 100% of Insurance Amount |
| Loss of speech and hearing (both ears) | 100% of Insurance Amount |
| Loss of cognitive function | 100% of Insurance Amount |
| Comatose state, in excess of one month | 100% of Insurance Amount |
| Hemiplegia (total paralysis of upper and lower limbs, unilaterally) | 50% of Insurance Amount |
| Paraplegia (total paralysis of both lower limbs) | 50% of Insurance Amount |
| Loss of speech or hearing (both ears) | 50% of Insurance Amount |

For covered multiple losses due to the same accident, we will pay 100% of the Insurance Amount. We won't pay more than 100% of the Insurance Amount for all losses due to the same accident, except under the Common Carrier, Seatbelt and Airbag Benefit, and the Repatriation Benefit provisions.

Loss of:

(a) cognitive function means a significant decline or loss in intellectual aptitude. Such loss must result from an accidental injury. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

(b) a hand or foot means it is completely cut off at or above the wrist or ankle.

(c) sight means the total and permanent loss of sight.

(d) speech or hearing means that speech or hearing is lost entirely.

**Payment of Benefits:** For covered loss of life, we pay the beneficiary described below.

For all other covered losses, we pay the employee, if he or she is living. If not, we pay the beneficiary described below.

We pay all benefits in a lump sum, as soon as we receive proof of loss which is acceptable to us. This should be sent to us as soon as possible.

**The Beneficiary:** The employee decides who gets this insurance if he or she dies. He or she should have named a beneficiary on his or her enrollment form. The employee can change his or her beneficiary at any time by giving us notice, unless he or she has assigned insurance. But the change won't take effect until we give you confirmation of the change.

If the employee named more than one person, but didn't tell us what their shares should be, his or her insurance will be divided equally by the beneficiaries still alive, unless the employee tells us otherwise.

If there is no beneficiary when the employee dies, we'll pay the insurance to one of the following: (a) his or her estate; (b) his or her spouse; (c) his or her parents; (d) his or her children; or (e) his or her brothers and sisters.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***All Options***

**Seatbelt and Airbag Benefits:** If the employee dies as a direct result of a motor vehicle accident while properly wearing a seatbelt, we will increase his or her benefit by $10,000.00. And if the employee dies as a direct result of a motor vehicle accident while both: (a) properly wearing a seatbelt; and (b) sitting in a seat equipped with an airbag; we'll increase his or her benefit by another $5,000.00, for a total increase of $15,000.00. This benefit will be applied after the Common Carrier provision.

**Common Carrier:** If the employee's loss is due to an accident which occurs while he or she is riding in a public conveyance, we increase the benefit payable. We pay two times the amount which otherwise applies to such loss. But, he or she must have been a fare-paying passenger.

**Repatriation Benefit:** For covered loss of life due to an accident which occurs at least 75 miles from the employee's home, we pay an extra sum. We pay up to $5,000.00 for costs to prepare and transport the body to a mortuary chosen by the employee or an authorized agent.

**Exclusions:** We won't pay for any loss caused directly or indirectly:

- by willful self-injury, suicide, or attempted suicide;
- by sickness, disease, mental infirmity, medical or surgical treatment;
- by the employee taking part in a riot or other civil disorder; or in the commission of or attempt to commit a felony;
- by travel on any type of aircraft if the employee is an instructor or crew member; or has any duties at all on that aircraft;
- by declared or undeclared war or act of war or armed aggression;
- while the employee is a member of any armed force;
- while the employee is a driver in a motor vehicle accident, if he or she does not hold a current and valid driver's license;
- by the employee's legal intoxication; this includes, but is not limited to, the employee's operation of a motor vehicle; or
- by the employee's voluntary use of a controlled substance, unless: (1) it was prescribed for the employee by a doctor; and (2) it was used as prescribed. A controlled substance is anything called a controlled substance in Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, as amended from time to time.

GP-1-R-ADCL2-00 P310.0418-R

***All Options***

**SPOUSAL EDUCATION AND RETRAINING BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay a spousal education and retraining benefit subject to all the terms below.

**When and How the Spousal Education and Retraining Benefit Begins:** We will pay a spousal education and retraining benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Employee Voluntary Accidental Death and Dismemberment with Catastrophic Loss (ADDCL) Benefit, due to a specified loss; and

(b) on the date of the accidental injury which results in the specified loss, the employee and spouse share the same place of residence;

(c) we receive proof of the spouse's enrollment in an institute of higher learning. The spouse must: (i) be enrolled on the date of the accidental injury which results in the specified loss; or (ii) enroll within 12 months of this date.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Spousal Education and Retraining Benefit per academic term is equal to the lesser of: (i) the spouse's net tuition expense for the term; (ii) 5% of the Employee Voluntary ADDCL Benefit paid as a result of the specified loss; and (iii) $2,500.00.

**Tuition Expense** means charges incurred for courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the spouse is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total spousal education benefit paid will not exceed the spouse's net tuition expense for the term.

We pay this benefit to the person who has primary responsibility for these expenses.

This benefit is paid per academic term. Benefit duration is based on whether the spouse is enrolled in a part-time or full-time course of study. See the Employee Voluntary Accidental Death and Dismemberment Insurance Schedule of Benefits.

**Continued Eligibility for the Spousal Education and Retraining Benefit:** We require periodic proof of the spouse's continued enrollment in an institute of higher learning. The spouse must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent. We also require proof, per academic term, of: (a) the spouse's tuition expenses; and (b) any scholarships and grants the spouse is entitled to.

**When the Spousal Education and Retraining Benefit Ends:** The spousal education and retraining benefit ends on the earliest of the following dates:

(a) the date the spouse is no longer enrolled in an institute of higher learning;

(b) the date the spouse fails to maintain a minimum grade point average as required above;

(c) the date the spouse fails to furnish proof as required above;

(d) the date the lifetime maximum benefit amount, shown in the schedule, is reached; and

(e) the date the maximum number of benefit payments, shown in the schedule, is reached.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***Option A***

**DAY CARE EXPENSE BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay a Day Care Expense Benefit subject to all the terms below.

**Eligibility for the Day Care Expense Benefit:** This plan provides a day care expense benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Employee Voluntary Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss; and

(b) we receive proof of a qualified dependent's enrollment in a qualified day care program. Such enrollment must commence within 12 months of the date of the specified loss.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** For purposes of the Day Care Expense Benefit a qualified dependent is: (a) an employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) dependent upon the employee for main support and maintenance; and (c) under the age of seven on the date of the accidental injury which results in the specified loss.

**Qualified Day Care Program:** means a program of child care which: (i) is provided in a facility that is licensed as a day care center; or (ii) is operated by a licensed day care provider; and (iii) charges a fee for the care of children. A qualified day care program does not include child care provided by a parent, step-parent, grandparent, sibling, aunt or uncle.

**What We Pay:** Subject to all the terms of this plan, the Day Care Expense Benefit is equal to the lesser of: (i) $10,000 annually; or (ii) the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

We pay this benefit quarterly, in arrears, upon receipt of proof of qualified day care expenses. Proof should be submitted within 30 days following the end of each calendar year quarter.

Payment will be made to the person who has primary responsibility for these expenses.

**Continued Eligibility for the Day Care Expense Benefit:** We require periodic proof that a qualified dependent remains enrolled in a qualified day care program. We require periodic proof of the qualified dependent's day care expenses.

**When the Day Care Expense Benefit Ends:** This plan's Day Care Expense Benefits end on the earliest of the following dates:

(a) the date the dependent is no longer qualified, as defined above;

(b) the date the dependent is no longer enrolled in a qualified day care program;

(c) the date we do not receive proof of qualified day care expenses, as required by this plan; and

(d) four years from the date the first day care expense benefit is paid.

***Option B***

**DAY CARE EXPENSE BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay a Day Care Expense Benefit subject to all the terms below.

**Eligibility for the Day Care Expense Benefit:** This plan provides a day care expense benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Employee Voluntary Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss; and

(b) we receive proof of a qualified dependent's enrollment in a qualified day care program. Such enrollment must commence within 12 months of the date of the specified loss.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** For purposes of the Day Care Expense Benefit a qualified dependent is: (a) an employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) dependent upon the employee for main support and maintenance; and (c) under the age of seven on the date of the accidental injury which results in the specified loss.

**Qualified Day Care Program:** means a program of child care which: (i) is provided in a facility that is licensed as a day care center; or (ii) is operated by a licensed day care provider; and (iii) charges a fee for the care of children. A qualified day care program does not include child care provided by a parent, step-parent, grandparent, sibling, aunt or uncle.

**What We Pay:** Subject to all the terms of this plan, the Day Care Expense Benefit is equal to the lesser of: (i) $10,000 annually; or (ii) the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both an Employee ADDCL plan and a Dependent ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

We pay this benefit quarterly, in arrears, upon receipt of proof of qualified day care expenses. Proof should be submitted within 30 days following the end of each calendar year quarter.

Payment will be made to the person who has primary responsibility for these expenses.

**Continued Eligibility for the Day Care Expense Benefit:** We require periodic proof that a qualified dependent remains enrolled in a qualified day care program. We require periodic proof of the qualified dependent's day care expenses.

**When the Day Care Expense Benefit Ends:** This plan's Day Care Expense Benefits end on the earliest of the following dates:

(a) the date the dependent is no longer qualified, as defined above;

(b) the date the dependent is no longer enrolled in a qualified day care program;

(c) the date we do not receive proof of qualified day care expenses, as required by this plan; and

(d) four years from the date the first day care expense benefit is paid.

GP-1-R-EDCXB-00 P310.0428-R

***Option A***

**DEPENDENT CHILD EDUCATION BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay an education benefit on behalf of a qualified dependent, subject to all the terms below.

**When and How the Dependent Child Education Benefit Begins:** We will pay a Dependent Child Education Benefit when all of the following conditions are met:

(a) A benefit is payable under this plan's Employee Voluntary Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss;

(b) We receive proof of a qualified dependent's enrollment in an institute of higher learning. The dependent must be a full-time student, as defined by the institute.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury which results in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury which results in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** To be qualified for the Dependent Child Education Benefit, a dependent must meet the following conditions. The dependent must be: (a) the employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) unmarried; and (c) dependent upon the employee for main support and maintenance. On the date of the accidental injury which results in the specified loss, the dependent must be: (a) 22 years of age or younger; and (b) enrolled as a full-time student in an institute of higher learning; or (c) in the 12th grade, and enroll as a full-time student in an institute of higher learning within 12 months of this date. The dependent must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Dependent Child Education Benefit per academic term is equal to the lesser of: (i) the qualified dependent's net tuition expense for the term; (ii) 5% of the Voluntary ADDCL Benefit paid as a result of the specified loss; or (iii) $2,500.00.

**Tuition Expense** means charges incurred for credit courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the dependent is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

We pay this benefit per academic term for each qualified dependent.

We pay this benefit to the person who has primary responsibility for these expenses.

**Continued Eligibility for Dependent Education Benefit:** We require periodic proof that a dependent remains a qualified dependent, as defined above. We also require proof, per academic term, of: (a) the qualified dependent's tuition expenses; and (b) any scholarships and grants the dependent is entitled to.

**When the Dependent Child Education Benefit Ends:** A qualified dependent's Dependent Child Education Benefit ends on the earliest of the following dates:

(a) the date the dependent child is no longer a qualified dependent, as defined above;

(b) the date the dependent fails to furnish proof as required above;

(c) the date the lifetime maximum benefit amount, shown in the schedule, is reached;

(d) the date the maximum number of benefit payments, shown in the schedule, is reached; and

(e) the date the maximum benefit period, shown in the schedule, is reached.

GP-1-R-EDCED-00 P310.0434-R

***Option B***

**DEPENDENT CHILD EDUCATION BENEFIT**

If an employee suffers a specified loss due to an accidental bodily injury, we will pay an education benefit on behalf of a qualified dependent, subject to all the terms below.

**When and How the Dependent Child Education Benefit Begins:** We will pay a Dependent Child Education Benefit when all of the following conditions are met:

(a) A benefit is payable under this plan's Employee Voluntary Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a specified loss;

(b) We receive proof of a qualified dependent's enrollment in an institute of higher learning. The dependent must be a full-time student, as defined by the institute.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury which results in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury which results in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** To be qualified for the Dependent Child Education Benefit, a dependent must meet the following conditions. The dependent must be: (a) the employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) unmarried; and (c) dependent upon the employee for main support and maintenance. On the date of the accidental injury which results in the specified loss, the dependent must be: (a) 22 years of age or younger; and (b) enrolled as a full-time student in an institute of higher learning; or (c) in the 12th grade, and enroll as a full-time student in an institute of higher learning within 12 months of this date. The dependent must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Dependent Child Education Benefit per academic term is equal to the lesser of: (i) the qualified dependent's net tuition expense for the term; (ii) 5% of the Voluntary ADDCL Benefit paid as a result of the specified loss; or (iii) $2,500.00.

**Tuition Expense** means charges incurred for credit courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the dependent is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

If this benefit is payable under both an Employee ADDCL plan and a Dependent ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

We pay this benefit per academic term for each qualified dependent.

We pay this benefit to the person who has primary responsibility for these expenses.

**Continued Eligibility for Dependent Education Benefit:** We require periodic proof that a dependent remains a qualified dependent, as defined above. We also require proof, per academic term, of: (a) the qualified dependent's tuition expenses; and (b) any scholarships and grants the dependent is entitled to.

**When the Dependent Child Education Benefit Ends:** A qualified dependent's Dependent Child Education Benefit ends on the earliest of the following dates:

(a) the date the dependent child is no longer a qualified dependent, as defined above;

(b) the date the dependent fails to furnish proof as required above;

(c) the date the lifetime maximum benefit amount, shown in the schedule, is reached;

(d) the date the maximum number of benefit payments, shown in the schedule, is reached; and

(e) the date the maximum benefit period, shown in the schedule, is reached.

GP-1-R-EDCED-00 P310.0435-R

***Option B***

## Dependent Voluntary Accidental Death And Dismemberment With Catastrophic Loss Benefits

**The Benefit:** We'll pay the benefits described below if a covered dependent suffers an irreversible covered loss due to an accident that occurs while he or she is insured. The loss must be a direct result of the accident, independent of all other causes. And, it must occur within 90 days of the date of the accident.

**Covered Losses:** Benefits will be paid only for losses identified in the following table. The Insurance Amount is shown in the Schedule of Benefits.

**ACCIDENTAL DEATH AND DISMEMBERMENT**

| **Covered Loss** | **Benefit** |
|---|---|
| Loss of Life | 100% of Insurance Amount |
| Loss of a hand | 50% of Insurance Amount |
| Loss of a foot | 50% of Insurance Amount |
| Loss of sight in one eye | 50% of Insurance Amount |
| Loss of thumb and index finger of same hand | 25% of Insurance Amount |

**CATASTROPHIC LOSS BENEFITS**

| Covered Loss | Benefit |
|---|---|
| Quadriplegia (total paralysis of upper and lower limbs, bilaterally) | 100% of Insurance Amount |
| Loss of speech and hearing (both ears) | 100% of Insurance Amount |
| Loss of cognitive function | 100% of Insurance Amount |
| Comatose state, in excess of one month | 100% of Insurance Amount |
| Hemiplegia (total paralysis of upper and lower limbs, unilaterally) | 50% of Insurance Amount |
| Paraplegia (total paralysis of both lower limbs) | 50% of Insurance Amount |
| Loss of speech or hearing (both ears) | 50% of Insurance Amount |

For covered multiple losses due to the same accident, we will pay 100% of the Insurance Amount. We won't pay more than 100% of the Insurance Amount for all losses due to the same accident, except under the Common Carrier, Seatbelt and Airbag Benefit, and the Repatriation Benefit provisions.

Loss of:

(a) cognitive function means a significant decline or loss in intellectual aptitude. Such loss must result from an accidental injury. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

(b) a hand or foot means it is completely cut off at or above the wrist or ankle.

(c) sight means the total and permanent loss of sight.

(d) speech or hearing means that speech or hearing is lost entirely.

If loss of life benefits are payable under this plan for both an employee and spouse, we will increase the benefit payable on behalf of the insured dependent spouse. In lieu of the spouse's insurance amount, we will pay 100% of the employee's insurance amount, to a maximum of $250,000. The following conditions must be met:

(a) coverage must be inforce on the date of the accident; and

(b) both the employee and the spouse die due to injuries sustained in the same accident; or the employee and spouse die due to injuries sustained in separate accidents that occur within the same 24 hour period.

**Payment of Benefits:** For all covered losses, we pay the employee, if he or she is living. If the employee is not living, and the dependent was the employee's child, we pay the employee's spouse. If the employee's spouse is not living, we pay the child's living brothers and sisters in equal shares. If there are none, we pay the child's estate. If the dependent was the employee's spouse, we pay the spouse's estate.

We pay all benefits in a lump sum, as soon as we receive proof of loss which is acceptable to us. This should be sent to us as soon as possible.

***Option B***

**Seatbelt and Airbag Benefits:** If a dependent dies as a direct result of a motor vehicle accident while properly wearing a seatbelt, we will increase his or her benefit amount by $10,000.00. And if a dependent dies as a direct result of a motor vehicle accident while both: (a) properly wearing a seatbelt; and (b) sitting in a seat equipped with an airbag; we'll increase his or her benefit by another $5,000.00, for a total increase of $15,000.00. This benefit will be applied after the Common Carrier provision.

**Common Carrier:** If a dependent's loss is due to an accident which occurs while he or she is riding in a public conveyance, we increase the benefit payable. We pay two times the amount which otherwise applies to such loss. But, he or she must have been a fare-paying passenger.

**Repatriation Benefit:** For covered loss of life due to an accident which occurs at least 75 miles from the dependent's home, we pay an extra sum. We pay up to $5,000.00 for costs to prepare and transport the body to a mortuary chosen by the employee.

**Exclusions:** We won't pay for any loss caused directly or indirectly:

- by willful self-injury, suicide, or attempted suicide;
- by sickness, disease, mental infirmity, medical or surgical treatment;
- by a dependent taking part in a riot or other civil disorder; or in the commission of or attempt to commit a felony;
- by travel on any type of aircraft if the dependent is an instructor or crew member; or has any duties at all on that aircraft;
- by declared or undeclared war or act of war or armed aggression;
- while the dependent is a member of any armed force;
- while the dependent is a driver in a motor vehicle accident, if he or she does not hold a current and valid driver's license;
- by the dependent's legal intoxication; this includes, but is not limited to, the dependent's operation of a motor vehicle; or
- by the dependent's voluntary use of a controlled substance, unless: (1) it was prescribed for the dependent by a doctor; and (2) it was used as prescribed. A controlled substance is anything called a controlled substance in Title II of the Comprehensive Drug Abuse Prevention and Control Act of 1970, as amended from time to time.

GP-1-R-DADCL2-00 P310.0440-R

***Option B***

**SPOUSAL EDUCATION AND RETRAINING BENEFIT**

If a covered spouse suffers a specified loss due to an accidental bodily injury, we will pay a spousal education and retraining benefit to the employee subject to all the terms below.

**When and How the Spousal Education and Retraining Benefit Begins:** We will pay a spousal education and retraining benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Dependent Voluntary Accidental Death and Dismemberment with Catastrophic Loss (ADDCL) Benefit, due to a specified loss; and

(b) on the date of the accidental injury which results in the specified loss, the employee and spouse share the same place of residence;

(c) we receive proof of the employee's enrollment in an institute of higher learning. The employee must: (i) be enrolled on the date of the accidental injury which results in the specified loss; or (ii) enroll within 12 months of this date.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Spousal Education and Retraining Benefit per academic term is equal to the lesser of: (i) the employee's net tuition expense for the term; (ii) 5% of the Dependent Voluntary ADDCL Benefit paid as a result of the specified loss; and (iii) $2,500.00.

**Tuition Expense** means charges incurred for courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the employee is entitled.

We pay this benefit to the person who has primary responsibility for these expenses.

This benefit is paid per academic term. Benefit duration is based on whether the employee is enrolled in a part-time or full-time course of study. See the Dependent Voluntary ADDCL Insurance Schedule of Benefits.

**Continued Eligibility for the Spousal Education and Retraining Benefit:** We require periodic proof of the employee's continued enrollment in an institute of higher learning. The employee must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent. We also require proof, per academic term, of: (a) the employee's tuition expenses; and (b) any scholarships and grants the employee is entitled to.

**When the Spousal Education and Retraining Benefit Ends:** The spousal education and retraining benefit ends on the earliest of the following dates:

(a) the date the employee is no longer enrolled in an institute of higher learning;

(b) the date the employee fails to maintain a minimum grade point average, as required above;

(c) the date the employee fails to furnish proof as required above;

(d) the date the lifetime maximum benefit amount, shown in the schedule, is reached; and

(e) the date the maximum number of benefit payments, shown in the schedule, is reached.

GP-1-R-DSED-00 P310.0442-R

***Option B***

**DAY CARE EXPENSE BENEFIT**

If a covered spouse suffers a specified loss due to an accidental bodily injury, we will pay a Day Care Expense Benefit subject to all the terms below.

**Eligibility for the Day Care Expense Benefit:** This plan provides a day care expense benefit when all of the following conditions are met:

(a) a benefit is payable under this plan's Dependent Voluntary Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a covered spouse's specified loss; and

(b) we receive proof of a qualified dependent's enrollment in a qualified day care program. Such enrollment must commence within 12 months of the date of the specified loss.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury, resulting in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury resulting in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** For purposes of the Day Care Expense Benefit a qualified dependent is: (a) an employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) dependent upon the employee for main support and maintenance; and (c) under the age of seven on the date of the accidental injury which results in the specified loss.

**Qualified Day Care Program:** means a program of child care which: (i) is provided in a facility that is licensed as a day care center; or (ii) is operated by a licensed day care provider; and (iii) charges a fee for the care of children. A qualified day care program does not include child care provided by a parent, step-parent, grandparent, sibling, aunt or uncle.

**What We Pay:** Subject to all the terms of this plan, the Day Care Expense Benefit is equal to the lesser of: (i) $10,000 annually; or (ii) the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

If this benefit is payable under both an Employee ADDCL plan and a Dependent ADDCL plan, the total day care expense benefit paid will not exceed the actual annual day care expenses for all of an employee's qualified dependents.

We pay this benefit quarterly, in arrears, upon receipt of proof of qualified day care expenses. Proof should be submitted within 30 days following the end of each calendar year quarter.

Payment will be made to the person who has primary responsibility for these expenses.

**Continued Eligibility for the Day Care Expense Benefit:** We require periodic proof that a qualified dependent remains enrolled in a qualified day care program. We require periodic proof of the qualified dependent's day care expenses.

**When the Day Care Expense Benefit Ends:** This plan's Day Care Expense Benefits end on the earliest of the following dates:

(a) the date the dependent is no longer qualified, as defined above;

(b) the date the dependent is no longer enrolled in a qualified day care program;

(c) the date we do not receive proof of qualified day care expenses, as required by this plan; and

(d) four years from the date the first day care expense benefit is paid.

GP-1-R-SDCXB-00 P310.0443-R

***Option B***

**DEPENDENT CHILD EDUCATION BENEFIT**

If a covered spouse suffers a specified loss due to an accidental bodily injury, we will pay an education benefit on behalf of a qualified dependent, subject to all the terms below.

**When and How the Dependent Child Education Benefit Begins:** We will pay a Dependent Child Education Benefit when all of the following conditions are met:

(a) A benefit is payable under this plan's Dependent Voluntary Accidental Death and Dismemberment with Catastrophic Loss Benefit (ADDCL), due to a covered spouse's specified loss;

(b) We receive proof of a qualified dependent's enrollment in an institute of higher learning. The dependent must be a full-time student, as defined by the institute.

**Specified Loss** means: (1) death; (2) a comatose state which lasts for a period in excess of one month; (3) spinal cord injury which results in: (a) quadriplegia; (b) paraplegia; or (c) hemiplegia; or (4) severe head injury which results in loss of cognitive function. Loss of cognitive function means a significant decline or loss in intellectual aptitude. It must be supported by clinical proof or standardized tests that precisely measure decline in the areas of: (i) short term memory; (ii) orientation to time, place and person; (iii) deductive or abstract reasoning; and (iv) judgement as it relates to awareness of safety.

**Qualified Dependent:** To be qualified for the Dependent Child Education Benefit, a dependent must meet the following conditions. The dependent must be: (a) an employee's: (i) biological child; (ii) lawfully adopted child; (iii) stepchild; or (iv) any other child who is living with the employee in a regular parent-child relationship; (b) unmarried; and (c) dependent upon the employee for main support and maintenance. On the date of the accidental injury which results in the specified loss, the dependent must be: (a) 22 years of age or younger; and (b) enrolled as a full-time student in an institute of higher learning; or (c) in the 12th grade, and enroll as a full-time student in an institute of higher learning within 12 months of this date. The dependent must maintain a grade point average of at least 2.0 on a 4.0 scale, or the equivalent.

**Institute of Higher Learning** includes, but is not limited to: (a) universities; (b) colleges; (c) trade schools; and (d) professional schools. It does not include graduate level programs.

**What We Pay:** Subject to all the terms of this plan, the Dependent Child Education Benefit per academic term is equal to the lesser of: (i) the qualified dependent's net tuition expense for the term; (ii) 5% of the Voluntary ADDCL Benefit paid as a result of the specified loss; or (iii) $2,500.00.

**Tuition Expense** means charges incurred for credit courses or lab fees. It does not include: (a) cost of books; (b) other related course materials; (c) student activity fees; or (d) room and board.

**Net Tuition Expense** means tuition expense less any scholarships or grants to which the dependent is entitled.

If this benefit is payable under both a Basic and a Voluntary ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

If this benefit is payable under both an Employee ADDCL plan and a Dependent ADDCL plan, the total education benefit paid will not exceed the qualified dependent's net tuition expense for the term.

We pay this benefit per academic term for each qualified dependent.

We pay this benefit to the person who has primary responsibility for these expenses.

**Continued Eligibility for Dependent Education Benefit:** We require periodic proof that a dependent remains a qualified dependent, as defined above. We also require proof, per academic term, of: (a) the qualified dependent's tuition expenses; and (b) any scholarships and grants the dependent is entitled to.

**When the Dependent Child Education Benefit Ends:** A qualified dependent's Dependent Child Education Benefit ends on the earliest of the following dates:

(a) the date the dependent child is no longer a qualified dependent, as defined above;

(b) the date the dependent fails to furnish proof as required above;

(c) the date the lifetime maximum benefit amount, shown in the schedule, is reached;

(d) the date the maximum number of benefit payments, shown in the schedule, is reached; and

(e) the date the maximum benefit period, shown in the schedule, is reached.

GP-1-R-SDCED-00 P310.0445-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***Option A***

**ATTACHED TO AND MADE A PART OF GROUP INSURANCE POLICY NO. G-00396174-CC**

issued by

**The Guardian** Life Insurance Company of America

(herein called the Insurance Company)

to

**Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund**
**with respect to**
**SAMPLE LIFE CONTRACT MLI/ADD/MOL/WAIVER 65 LIFEASSIST AGE 65/ACCELERATED/PORTABILITY/FAMILY ADO**

(herein called the Policyholder)

As of March 1, 2002, this plan is amended, as explained below, with respect to any of this plan's provisions.

As used in this rider:

"Covered Person" means an employee or dependent, including the legal representative of a minor or incompetent, insured by this plan.

"Reasonable pro-rata Expenses" are those costs, such as lawyers fees and court costs, incurred to effect a third party payment, expressed as a percentage of such payment.

"Third Party" means anyone other than The Guardian, the employer or the covered person.

We will not pay any benefits under this plan, to or on behalf of a covered person, who has received payment in whole or in part from a third party, or its insurer for past or future medical or dental charges or loss of earnings, resulting from the negligence, intentional act, or no-fault tort liability of a third party.

If a covered person makes a claim to us for medical, dental or loss of earnings benefits under this plan prior to receiving payment from a third party or its insurer, the covered person must agree, in writing, to pay us from any amount of money they receive from the third party, or its insurer, as permitted by law.

The repayment will be equal to the lesser of: (a) the amount of benefits paid by us; or (b) 50% of the gross aggregate amount recovered by the covered person. However, the covered person may deduct the reasonable pro-rata expenses, incurred in effecting the third party payment, from the repayment to us.

The repayment agreement will be binding upon the covered person whether: (a) the payment received from the third party, or its insurer, is the result of a legal judgement, an arbitration award, a compromise settlement, or any other arrangement; or (b) the third party, or its insurer, has admitted liability for the payment; or (c) the medical or dental charges or loss of earnings are itemized in the third party payment.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

This rider is a part of this plan. Except as stated in this rider, nothing contained in this rider changes or affects any other terms of this plan.

Dated at ____________________ This ____________________ Day of ____________________ , ____

Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund
Full or Corporate Name of Policyholder

____________________________________ BY: ____________________________________

Witness Signature and Title

**The Guardian** Life Insurance Company of America

Sanford Herman

Vice President, Group Pricing & Standards

GP-1-SUBR-AR-93 P600.0015-R

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

***Option B***

**ATTACHED TO AND MADE A PART OF GROUP INSURANCE POLICY NO. G-00396174-CC**

issued by

**The Guardian** Life Insurance Company of America

(herein called the Insurance Company)

to

**Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund**
**with respect to**
**SAMPLE LIFE CONTRACT MLI/ADD/MOL/WAIVER 65 LIFEASSIST AGE 65/ACCELERATED/PORTABILITY/FAMILY ADO**

(herein called the Policyholder)

As of March 1, 2002, this plan is amended, as explained below, with respect to any of this plan's provisions.

As used in this rider:

"Covered Person" means an employee or dependent, including the legal representative of a minor or incompetent, insured by this plan.

"Reasonable pro-rata Expenses" are those costs, such as lawyers fees and court costs, incurred to effect a third party payment, expressed as a percentage of such payment.

"Third Party" means anyone other than The Guardian, the employer or the covered person.

We will not pay any benefits under this plan, to or on behalf of a covered person, who has received payment in whole or in part from a third party, or its insurer for past or future medical or dental charges or loss of earnings, resulting from the negligence, intentional act, or no-fault tort liability of a third party.

If a covered person makes a claim to us for medical, dental or loss of earnings benefits under this plan prior to receiving payment from a third party or its insurer, the covered person must agree, in writing, to pay us from any amount of money they receive from the third party, or its insurer, as permitted by law.

The repayment will be equal to the lesser of: (a) the amount of benefits paid by us; or (b) 50% of the gross aggregate amount recovered by the covered person. However, the covered person may deduct the reasonable pro-rata expenses, incurred in effecting the third party payment, from the repayment to us.

The repayment agreement will be binding upon the covered person whether: (a) the payment received from the third party, or its insurer, is the result of a legal judgement, an arbitration award, a compromise settlement, or any other arrangement; or (b) the third party, or its insurer, has admitted liability for the payment; or (c) the medical or dental charges or loss of earnings are itemized in the third party payment.

This is a specimen copy of master group policy provisions which apply to this plan of insurance. The originals of these provisions are part of a master group policy delivered in the State of Rhode Island to the Citizens Savings Bank and Citizens Trust Company (Trustee) as policyholder.

This rider is a part of this plan. Except as stated in this rider, nothing contained in this rider changes or affects any other terms of this plan.

Dated at ____________________ This ____________________ Day of ____________________, ____

Trustees of the Agriculture, Forestry and Fisheries Industry Insurance Trust Fund
Full or Corporate Name of Policyholder

________________________________________ BY: ________________________________________
Witness Signature and Title

**The Guardian** Life Insurance Company of America

Sanford Herman

Vice President, Group Pricing & Standards

GP-1-SUBR-AR-93 P600.0015-R

***All Options***

## STATEMENT OF ERISA RIGHTS

As a participant, an employee is entitled to certain rights and protection under the Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides that all plan participants shall be entitled to:

(a) examine, without charge, all plan documents, including insurance contracts, collective bargaining agreements and copies of all documents filed by the plan with the U. S. Department of Labor, such as detailed annual reports and plan descriptions. The documents may be examined at the Plan Administrator's office and at other specified locations such as worksites and union halls.

(b) obtain copies of all plan documents and other plan information upon written request to the Plan Administrator, who may make a reasonable charge for the copies; and

(c) receive a summary of the plan's annual financial report from the Plan Administrator (if such a report is required).

In addition to creating rights for plan participants, ERISA imposes duties upon the people, called "fiduciaries", who are responsible for the operation of the employee benefit plan. They have a duty to operate the plan prudently and in the interest of plan participants and beneficiaries. The employer may not fire an employee or otherwise discriminate against an employee in any way to prevent the employee from obtaining a welfare benefit or exercising his or her rights under ERISA. If an employee's claim for a welfare benefit is denied in whole or in part, he or she must receive a written explanation of the reason for the denial. The employee has the right to have his or her claim reviewed and reconsidered.

Under ERISA, there are steps an employee can take to enforce the above rights. For instance, an employee may file suit in a Federal court if he or she requests materials from the plan and does not receive them within 30 days. The court may require the plan administrator to provide the materials and pay the employee up to $110.00 a day until the employee receives them (unless the materials were not sent because of reasons beyond the administrator's control). If an employee's claim for benefits is denied in whole or in part, or ignored, he or she may file suit in a State or Federal court. If plan fiduciaries misuse the plan's money, or discriminate against an employee for asserting his or her rights, the employee may seek assistance from the U.S. Department of Labor, or file suit in a Federal court. If the employee is successful, the court may order the person who has been sued by the employee to pay court costs and legal fees. If the employee loses, the court may order him or her to pay such costs and fees, for example, if it finds the claim is frivolous. If the employee has questions about this plan, he or she should contact the Plan Administrator. If the employee has any questions about this statement or about his or her rights under ERISA, he or she should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in the telephone directory, or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration, U.S. Department of Labor, 200 Constitution Avenue, N.W., Washington D.C. 20210.

P800.0036-R

***All Options***

## Claims Procedure

Claim forms and instructions for filing claims may be obtained from the Plan Administrator. Completed claim forms and any other required material should be returned to the Plan Administrator for submission to The Guardian.

The Guardian is the Claims Fiduciary with discretionary authority to determine eligibility for benefits and to construe the terms of the plan with respect to claims.

In addition to the basic claim procedure explained in the employee's certificate, The Guardian will also observe the procedures listed below. All notification from The Guardian will be in writing.

(a) If a claim is wholly or partially denied, the claimant will be notified of the decision within 90 days after The Guardian received the claim.

(b) If special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which The Guardian expects to render the final decision.

(c) If a claim is denied, The Guardian will provide to the Plan Administrator, for delivery to the claimant, a notice that will set forth:

(1) the specific reason(s) the claim was denied;

(2) specific references to the pertinent plan provision on which the denial is based;

(3) a description of any additional material or information needed to make the claim valid, and an explanation of why the material or information is needed;

(4) an explanation of the plan's claim review procedure.

A claimant must file a request for review of a denied claim within 60 days after receipt of written notification of denial of a claim.

(d) The Guardian will notify the claimant of its decision within 60 days of receipt of the request for review. If special circumstances require an extension of time for processing, The Guardian will render a decision as soon as possible, but no later than 120 days after receiving the request. The Guardian will notify the claimant about the extension.

The above procedures are required under the provisions of ERISA.

P800.0026-R

*END OF POLICY DOCUMENT*

# Service and Savings Commitment

Guardian ensures your total satisfaction – it's our highest priority. We are pleased to offer the performance standards outlined below to demonstrate our commitment to superior service. In the event we do not meet a performance standard, we will issue a check to the State for the corresponding penalty amount.

| Our Promise: A smooth plan implementation | Amount |
|---|---|
| Scheduling and facilitation of weekly implementation meetings by the implementation manager. | $10,000 |

| Product | Our Promise: Quick and accurate claims processing | Amount |
|---|---|---|
| Life | Annual average life claim payment turnaround time for fully documented life claims of not more than 20 business days[1]. | $10,000 |

**Notes:**

- We reserve the right to reevaluate, adjust or withdraw this offer if:
  - the actual number of employees covered on the effective date of the plan differs by 20% or more from the number of employees the quote is based on
  - the number of employees changes by 20% or more prior to the end of the experience
  - the plan of benefits changes
- Performance standard results are based on current methodology at the time of measurement
- Determinations are subject to Guardian review and considered final

[1] Based on Guardian block of business results