



***New York Life Global Funding***  
***\$11,000,000,000***  
***GLOBAL DEBT ISSUANCE PROGRAM***

This supplement (“Base Prospectus Supplement”) is supplemental to and must be read in conjunction with the Offering Memorandum dated June 11, 2010 (the “Offering Memorandum”), as supplemented by base prospectus supplements dated September 3, 2010, November 25, 2010 and March 7, 2011 prepared by New York Life Global Funding (the “Issuer”) under the Issuer's \$11,000,000,000 Global Debt Issuance Program for the issuance of senior secured medium-term notes (the “Notes”).

This Base Prospectus Supplement has been approved by the Central Bank of Ireland, as competent authority under Directive 2003/71/EC (the “Prospectus Directive”). The Central Bank of Ireland only approves this Base Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

This document constitutes a Base Prospectus Supplement for the purposes of the Prospectus Directive. References herein to this document are to this Base Prospectus Supplement incorporating Annex 1 hereto.

On March 22, 2011, New York Life Insurance Company (“New York Life”) published its annual audited statutory statements (including any notes thereto, the “2010 and 2009 Audited Statutory Financial Statements”) the text of which is set out in Annex 1 to this document. Copies of such 2010 and 2009 Audited Statutory Financial Statements will be made available for inspection at the offices of the parties at whose offices documents are to be available for inspection as identified in “General Information” in the Offering Memorandum.

Except as disclosed in this document, there has been no other significant new factor, material mistake or inaccuracy relating to the information included in the Offering Memorandum or the base prospectus supplements since the publication of the Offering Memorandum.

Each of the Issuer and New York Life accepts responsibility for the information contained in this Base Prospectus Supplement. To the best of the knowledge of each of the Issuer and New York Life (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Base Prospectus Supplement dated March 25, 2011

## ANNEX 1

**NEW YORK LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS  
(STATUTORY BASIS)**

**DECEMBER 31, 2010 and 2009**



## Report of Independent Auditors

To the Board of Directors of  
New York Life Insurance Company:

We have audited the accompanying statutory statements of financial position of New York Life Insurance Company (the "Company") as of December 31, 2010 and 2009, and the related statutory statements of operations, of changes in surplus, and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York ("statutory basis of accounting"), which practices differ from 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 and accounting principles generally accepted in the United States of America are material; they are described in Note 1.

In our opinion, the financial statements referred to above (1) do not present fairly in conformity with generally accepted accounting principles, the financial position of the Company as of December 31, 2010 and 2009, or the results of its operations or its cash flows for the years then ended because of the effects of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America referred to in the third paragraph of this report, and (2) present fairly, in all material respects, its financial position and the results of its operations and its cash flows, on the statutory basis of accounting described in Note 1.

As described in Note 1 to the financial statements, the Company changed its method of accounting for other-than-temporary impairments for loan-backed and structured securities, its method of accounting for deferred taxes and its measurement date for defined pension and other postretirement plans in 2009.

*PricewaterhouseCoopers LLP*

March 16, 2011

**NEW YORK LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENTS OF FINANCIAL POSITION**

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2010</b>         | <b>2009</b> |
|   | (in millions)       |             |
| <b>Assets</b>                                     |                     |             |
| Bonds   | \$ 65,925           | \$ 65,222   |
| Common and preferred stocks                       | 7,734               | 7,062       |
| Mortgage loans                                    | 9,445               | 9,540       |
| Real estate                                       | 432                 | 452         |
| Policy loans                                      | 7,909               | 7,548       |
| Limited partnerships and other investments        | 8,209               | 7,196       |
| Cash, cash equivalents and short-term investments | 1,608               | 1,318       |
| Derivatives                                       | 650                 | 484         |
| Other invested assets                             | 21                  | 24          |
| Total cash and invested assets                    | 101,933             | 98,846      |
| Deferred and uncollected premiums                 | 1,483               | 1,539       |
| Investment income due and accrued                 | 996                 | 1,039       |
| Separate account assets                           | 7,467               | 6,608       |
| Funds held by reinsurer - affiliated              | 4,890               | 4,954       |
| Other assets                                      | 5,239               | 4,849       |
| Total assets                                      | \$ 122,008          | \$ 117,835  |
| <b>Liabilities and Surplus</b>                    |                     |             |
| Liabilities:                                      |                     |             |
| Policy reserves                                   | \$ 76,234           | \$ 72,772   |
| Deposit funds                                     | 14,074              | 15,433      |
| Dividends payable to policyholders                | 1,330               | 1,276       |
| Policy claims                                     | 601                 | 577         |
| Borrowed money                                    | 1,059               | 1,752       |
| Separate account liabilities                      | 7,463               | 6,606       |
| Amounts payable under security lending agreements | 660                 | 689         |
| Derivatives                                       | 409                 | 419         |
| Other liabilities                                 | 3,714               | 3,614       |
| Interest maintenance reserve                      | 270                 | 179         |
| Asset valuation reserve                           | 1,477               | 832         |
| Total liabilities                                 | 107,291             | 104,149     |
| Surplus:  |                     |             |
| Surplus notes                                     | 1,990               | 1,990       |
| Special surplus funds - deferred tax              | 530                 | 514         |
| Unassigned surplus                                | 12,197              | 11,182      |
| Total surplus                                     | 14,717              | 13,686      |
| Total liabilities and surplus                     | \$ 122,008          | \$ 117,835  |

See accompanying notes to financial statements

**NEW YORK LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENTS OF OPERATIONS**

|   | <b>Years Ended December 31,</b> |             |
|---|---------------------------------|-------------|
|   | <b>2010</b>                     | <b>2009</b> |
|   | <b>(in millions)</b>            |             |
| Income  |                                 |             |
| Premiums  | \$ 12,474                       | \$ 11,162   |
| Net investment income   | 4,917                           | 5,061       |
| Other income  | 691                             | 589         |
| Total income  | 18,082                          | 16,812      |
| Benefits and expenses   |                                 |             |
| Benefit payments:   |                                 |             |
| Death benefits  | 2,648                           | 2,399       |
| Annuity benefits  | 1,108                           | 1,071       |
| Health and disability insurance benefits  | 353                             | 340         |
| Surrender benefits  | 2,470                           | 2,450       |
| Payments on matured contracts   | 2,913                           | 2,468       |
| Other benefit payments  | 442                             | 571         |
|   | 9,934                           | 9,299       |
| Additions to reserves   | 3,617                           | 3,044       |
| Net transfers from Separate Accounts  | 100                             | 158         |
| Operating expenses  | 2,274                           | 2,079       |
| Total benefits and expenses   | 15,925                          | 14,580      |
| Gain from operations before dividends<br>and federal income taxes                         | 2,157                           | 2,232       |
| Dividends to policyholders  | 1,377                           | 1,333       |
| Gain from operations before federal<br>income taxes                                       | 780                             | 899         |
| Federal income taxes  | 15                              | 105         |
| Net gain from operations  | 765                             | 794         |
| Net realized capital (losses), after tax and transfers<br>to interest maintenance reserve | (239)                           | (339)       |
| Net income  | \$ 526                          | \$ 455      |

See accompanying notes to financial statements

**NEW YORK LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENTS OF CHANGES IN SURPLUS**

|  | <b>December 31,</b>  |                    |
|--|----------------------|--------------------|
|  | <b><u>2010</u></b>   | <b><u>2009</u></b> |
|  | <b>(in millions)</b> |                    |
| Surplus, beginning of year   | \$ 13,686            | \$ 11,793          |
| Net income/(loss)  | 526                  | 455                |
| Change in net unrealized gains/(losses) on investments               | 1,091                | 353                |
| Change in additional minimum pension liability                       | 338                  | (550)              |
| Change in net deferred income tax                                    | 16                   | 101                |
| Change in special surplus funds - deferred tax                       | 16                   | -                  |
| Cumulative effect of changes in accounting principles - deferred tax | -                    | 514                |
| Change in intangible asset   | (26)                 | 30                 |
| Cumulative effect of changes in accounting principles - (See Note 1) | (39)                 | 28                 |
| Change in nonadmitted assets   | (303)                | 66                 |
| Change in asset valuation reserve                                    | (613)                | (183)              |
| Change in surplus notes  | -                    | 998                |
| Change in surplus notes indemnification reserve                      | -                    | 67                 |
| Change in reserve valuation basis                                    | -                    | 10                 |
| Other adjustments, net   | 25                   | 4                  |
| Surplus, end of year   | \$ 14,717            | \$ 13,686          |

See accompanying notes to financial statements

**NEW YORK LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENTS OF CASH FLOWS**

|  | <b>Years Ended December 31,</b> |                    |
|--|---------------------------------|--------------------|
|  | <b><u>2010</u></b>              | <b><u>2009</u></b> |
|  | <b>(in millions)</b>            |                    |
| Cash flow from operating activities:   |                                 |                    |
| Premiums received  | \$ 12,384                       | \$ 11,070          |
| Net investment income received   | 4,673                           | 4,833              |
| Other  | 378                             | 378                |
|  | <hr/>                           | <hr/>              |
| Total received   | 17,435                          | 16,281             |
|  | <hr/>                           | <hr/>              |
| Benefits and other payments  | 9,589                           | 8,901              |
| Operating expenses   | 2,298                           | 2,139              |
| Dividends to policyowners  | 1,322                           | 1,410              |
| Federal income taxes   | (75)                            | (352)              |
| Other  | 11                              | 220                |
|  | <hr/>                           | <hr/>              |
| Total paid   | 13,145                          | 12,318             |
|  | <hr/>                           | <hr/>              |
| Net cash from operations   | 4,290                           | 3,963              |
|  | <hr/>                           | <hr/>              |
| Cash flow from investing activities:   |                                 |                    |
| Proceeds from investments sold   | 14,008                          | 17,795             |
| Proceeds from investments matured or repaid                                  | 23,226                          | 24,166             |
| Cost of investments acquired   | (38,182)                        | (41,812)           |
| Net change in policy loans and premium notes                                 | (362)                           | (498)              |
|  | <hr/>                           | <hr/>              |
| Net cash from investing activities   | (1,310)                         | (349)              |
|  | <hr/>                           | <hr/>              |
| Cash flow from financing and miscellaneous activities:                       |                                 |                    |
| Surplus Notes issued   | -                               | 998                |
| Net (repayments) borrowings under repurchase agreements                      | (551)                           | 566                |
| Net borrowings (repayments) under credit agreements                          | 32                              | 68                 |
| Other changes in borrowed money  | (125)                           | 257                |
| Net (outflows) from deposit contracts  | (1,763)                         | (5,499)            |
| Net change in amounts payable under security lending agreements              | (29)                            | (1,420)            |
| Other miscellaneous (uses) sources   | (254)                           | 433                |
|  | <hr/>                           | <hr/>              |
| Net cash from financing and miscellaneous activities                         | (2,690)                         | (4,597)            |
|  | <hr/>                           | <hr/>              |
| Net increase/(decrease) in cash, cash equivalents and short-term investments | 290                             | (983)              |
| Cash, cash equivalents and short-term investments, beginning of year         | 1,318                           | 2,301              |
|  | <hr/>                           | <hr/>              |
| Cash, cash equivalents and short-term investments, end of year               | <u>\$ 1,608</u>                 | <u>\$ 1,318</u>    |

See accompanying notes to financial statements



**NEW YORK LIFE INSURANCE COMPANY**  
**STATUTORY STATEMENTS OF CASH FLOWS (supplemental)**

|   | <b>Years Ended December 31,</b> |             |
|---|---------------------------------|-------------|
|   | <b>2010</b>                     | <b>2009</b> |
|   | <b>(in millions)</b>            |             |
| Supplemental disclosures of cash flow information:  |                                 |             |
| Non-cash investing and financing activities during the year not included in the Statutory Statements of Cash Flows: |                                 |             |
| Internal transfer of debt investments between investment portfolios   | \$ 5,374                        | \$ 969      |
| Internal transfer of equity securities between investment portfolios  | 19                              | 70          |
| Exchange of debt investment to debt investment  | 177                             | -           |
| Transfer of receivable to investment in affiliated subsidiary   | 70                              | 76          |
| Transfer of affiliated equity investment to debt investment   | 50                              | -           |
| Exchange of mortgage loan to real estate  | 17                              | 27          |
| Conversion of debt securities to equity securities  | 13                              | 3           |
| Conversion of equity securities to equity securities  | 7                               | -           |
| Exchange of debt investment to equity investment  | 1                               | 5           |
| Transfer of unaffiliated equity investment to investment in subsidiary  | -                               | 319         |
| Transfer of investment in subsidiary to unaffiliated equity investment  | -                               | 266         |
| Transfer of debt investment to investment in subsidiary   | -                               | 94          |
| Conversion of equity securities to debt securities  | -                               | 65          |
| Total non-cash transactions   | \$ 5,728                        | \$ 1,894    |

See accompanying notes to financial statements

**NEW YORK LIFE INSURANCE COMPANY**  
**NOTES TO STATUTORY FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010 AND 2009**

**NOTE 1 – NATURE OF OPERATIONS**

New York Life Insurance Company (“the Company”), a mutual life insurance company domiciled in New York State, and its subsidiaries offer a wide range of insurance and investment products and services including life and health insurance, long-term care, annuities (including single premium immediate annuities or guaranteed lifetime income annuities), pension products, mutual funds, and other investments and investment advisory services. Through certain Affinity programs, the Company is the exclusive provider of life insurance and fixed immediate and deferred annuities to members of AARP and underwrites group life, health and disability programs for professional and affinity organizations. The Company is comprised of four primary business operations: U.S. Life Insurance and Agency, Retirement Income Security, Investment Management, and International. U.S. Life Insurance and Agency and Retirement Income Security operations are conducted primarily through the Company and its wholly owned U.S. insurance subsidiaries New York Life Insurance and Annuity Corporation (“NYLIAC”) and NYLIFE Insurance Company of Arizona (“NYLAZ”). Investment Management activities are conducted primarily through the Company and various registered investment advisory subsidiaries of its wholly owned subsidiary, New York Life Investment Management Holdings LLC (“New York Life Investments”). The Company markets individual insurance and investment products in Asia and Latin America primarily through New York Life International, LLC (“NYLI”), a wholly owned subsidiary of the Company. NYLIFE LLC is a wholly owned subsidiary of the Company, and is a holding company for certain non-insurance subsidiaries of the Company. NYLIFE LLC, through its subsidiaries, offers securities brokerage, financial planning and investment advisory services, trust services and capital financing.

**Basis of Presentation**

The accompanying financial statements have been prepared using accounting practices prescribed by the New York State Insurance Department (“statutory accounting practices”), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The New York State Insurance Department (“NYSID”) recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial position and results of operations of an insurance company and for determining its solvency under New York Insurance Law. The National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) has been adopted as a component of prescribed practices by the State of New York. Prescribed statutory accounting practices include state laws and regulations. Permitted statutory accounting practices encompass accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. The Company has no permitted practices.

A reconciliation of the Company's net income at December 31, 2010 and 2009 between NAIC SAP and practices prescribed by the State of New York is shown below (in millions):

|  | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--|--------------------------|--------------------------|
| Statutory Net Income, New York basis   | \$ 526                   | \$ 455                   |
| State Prescribed Practices:  |                          |                          |
| 1. NYSID Circular Letter No. 11 impact on deferred premiums*                             | 5                        | -                        |
| 2. NYSID Seventh Amendment to Regulation No. 172 admitted unearned reinsurance premium** | <u>(1)</u>               | <u>-</u>                 |
| Statutory Net Income, NAIC SAP   | <u>\$ 530</u>            | <u>\$ 455</u>            |

A reconciliation of the Company's surplus at December 31, 2010 and 2009 between NAIC SAP and practices prescribed by the State of New York is shown below (in millions):

|  | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|--|--------------------------|--------------------------|
| Statutory Surplus, New York basis  | \$ 14,717                | \$ 13,686                |
| State Prescribed Practices:  |                          |                          |
| 1. NYSID Circular Letter No. 11 impact on deferred premiums*                             | 93                       | -                        |
| 2. NYSID Seventh Amendment to Regulation No. 172 admitted unearned reinsurance premium** | <u>(35)</u>              | <u>-</u>                 |
| Statutory Surplus, NAIC SAP  | <u>\$ 14,775</u>         | <u>\$ 13,686</u>         |

\* NYSID Circular Letter No. 11 clarified the accounting for deferred premium assets when reinsurance is involved (See Changes in Accounting Principles for details).

\*\* NYSID Regulation 172 was amended to allow for the admission of an unearned reinsurance premium asset (See Changes in Accounting Principles for details).

Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income or surplus as previously reported.

### **Changes in Accounting Principles**

Accounting changes adopted to conform to the provisions of NAIC SAP or other state prescribed accounting practices are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is generally reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. Generally the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

During 2010, the NYSID issued Circular Letter No. 11 (2010), dated August 6, 2010, as well as the Seventh Amendment to Regulation No. 172, *Financial Statement Filings and Accounting Practices and Procedures* ("Reg. 172"), dated December 9, 2010. Circular Letter No.11 clarified the accounting for deferred premium assets when reinsurance is involved. Reg. 172 prescribed the establishment of an

admitted unearned reinsurance premium asset. The associated \$135 million decrease in the deferred premium asset and loading and the additional \$51 million unearned reinsurance premium asset replaced a \$23 million reinsurance reserve credit adjustment that was made for December 31, 2006 and later reporting periods in response to an industry-wide reinsurance credit treatment proposed by the California Insurance Department. The net impact of these changes resulted in a direct decrease to Statutory Surplus of \$39 million, net of taxes, that was recorded as a change in accounting principle.

In December 2009, the NAIC adopted Statements of Statutory Account Principles (“SSAP”) No. 10R *“Income Taxes-Revised, A Temporary Replacement of SSAP No. 10”* (“SSAP 10R”). This guidance provides an increase in the admissibility limitation from 10% to 15% of surplus and an increase in the reversal/realization periods from one to three years. It requires gross deferred tax assets (“DTAs”) to be reduced by a statutory valuation allowance if it is more likely than not that some portion or all of the gross DTAs will not be realized. The Company adopted this guidance effective for 2009 and later statutory financial statements. In September 2010, the NAIC extended SSAP 10R through 2011 and incorporated additional disclosures for tax-planning strategies. As of December 31, 2009, the effect of adopting this pronouncement was an increase to surplus of \$514 million and is reported as a specifically identified change in accounting principle in the Statutory Statements of Changes in Surplus.

In September 2009, the NAIC issued SSAP No. 43R, *“Loan-backed and Structured Securities,”* (“SSAP 43R”) an amendment of SSAP No. 43, *“Loan-Backed and Structured Securities,”* replacing SSAP No. 98, *“Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43-Loan-backed and Structured Securities”*. SSAP 43R provides that for loan-backed and structured securities for which (i) fair value is less than cost, (ii) the Company does not intend to sell the security and (iii) the Company has the intent and ability to hold the security until recovery, the Company should determine if there is a non-interest related impairment by comparing the present value of the cash flows expected to be collected to the amortized cost basis. If the net present value of cash flows expected to be collected is less than amortized cost, the security is impaired, and the difference is recorded as a realized loss in net income. The new cost basis of the security is the previous amortized cost basis less the non-interest impairment recognized in net income.

If fair value is less than amortized cost and the Company (i) has the intent to sell the security, or (ii) does not have the intent and ability to retain the security until recovery of its carrying value, the security is written down to fair value with the associated realized loss reported in net income. The non-interest portion of the realized loss is recognized in the asset valuation reserves (“AVR”), and the interest portion in the interest maintenance reserves (“IMR”). The fair value at the time of the impairment becomes the security's new cost basis.

SSAP 43R requires that for beneficial interests in securitized financial assets that are not of high credit quality or can contractually be prepaid or otherwise settled in such a way that the reporting entity would not recover substantially all of its recorded amount, determined at acquisition, if fair value is less than amortized cost, and there has been a negative change in cash flows, an other-than-temporary impairment (“OTTI”) must be taken. The amount of the impairment is based upon the criteria discussed above. The carrying value of these securities is determined using the prospective yield method.

The Company adopted SSAP 43R effective July 1, 2009 and recorded an increase to surplus of \$67 million, net of taxes, as a change in accounting principle in the Statutory Statements of Changes in Surplus.

In addition, in 2009, the Company changed the measurement date of its defined benefit plans to December 31<sup>st</sup> from September 30<sup>th</sup>. The Company determined its net periodic benefit costs over the 15 month period, and allocated 20% of the cost as a change in accounting principle. For December 31, 2009,

the Company recorded a \$39 million reduction to surplus as a change in accounting principle in the Statutory Statements of Changes in Surplus.

### **Discontinued Operations**

On October 26, 2010, NYLI, a wholly-owned subsidiary of the Company, entered into a definitive agreement (“the Share Purchase Agreement”) to sell its Hong Kong and South Korea subsidiaries to ACE INA International Holdings, Ltd. for approximately \$425 million in cash, subject to customary closing conditions, including regulatory approval. The sale will be accretive to the Company’s surplus. NYLI sold its South Korea subsidiary on February 1, 2011 to an affiliate of ACE INA International Holdings, Ltd. The sale of NYLI’s Hong Kong subsidiary is expected to close in early 2011. The shares associated with the Hong Kong subsidiary will be retained by NYLI until the closing date. The December 31, 2010 statutory valuation of the shares associated with the Hong Kong and South Korea subsidiaries was not affected by the sale transaction since its statutory carrying value was less than the expected proceeds.

### **New Accounting Pronouncements**

In December 2010, the NAIC expanded on its guidance for determining NAIC designations for all loan-backed and structured securities. The RMBS initiative, which began in 2009 to create a modeling and rating process for non-agency residential mortgage-backed-securities (“RMBS”), was expanded to include commercial mortgage-backed-securities (“CMBS”). As part of this initiative, all loan-backed and structured securities designations are to be determined using one of the following three methods: (i) modeling for RMBS and CMBS; (ii) derived from rating agency ratings or Securities Valuation Office ratings, where rated securities are not modeled and the rating is not stale; or (iii) the current 5\*/6\* rule. A security’s carrying amount is based upon the initial NAIC Designation, which is determined using the security’s amortized cost. A final NAIC designation is determined using the security’s carrying amount. This final NAIC designation is applicable for all statutory accounting and reporting purposes, including establishing IMR, AVR, and Risk Based Capital (“RBC”) except for establishing the appropriate carrying value. This guidance was effective for December 31, 2010.

In May 2010, the NAIC modified SSAP No. 91R, “*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*” (“SSAP 91R”), effective for December 31, 2010. This statement addresses collateral requirements for securities lending transactions and repurchase agreements by (1) clarifying that collateralization should be measured as the fair value of the collateral obtained, (2) defining when collateral is on or off balance sheet in securities lending transactions, and (3) clarifying that the change in fair value of reinvested collateral represents a separate risk and should be evaluated for other-than-temporary impairments. The Company adopted this guidance effective December 31, 2010; however, it did not have a material impact on the Company’s financial statements.

In December 2009, the NAIC issued SSAP No. 100, “*Fair Value Measurements*” (“SSAP 100”), effective for financial statements for periods ending on or after December 31, 2010. This statement defines fair value, establishes a framework for measuring fair value when other statutory accounting pronouncements require or permit fair value measurements and expands disclosures about fair value measurements. The statement adopts U.S. GAAP guidance for calculating fair value with minor modifications. Statutory accounting principles rejected the U.S. GAAP concept of incorporating nonperformance risk in the fair value measurement for a liability. The Company adopted this guidance effective December 31, 2010; however, it did not have a material impact on the Company’s financial statements. The required disclosures are provided in Note 18 – Fair Value Levels.

In September 2009, the NAIC adopted revisions to SSAP No. 56, “*Separate Accounts*” (“SSAP 56”), which has been updated to include new disclosures related to separate accounts. These enhanced

disclosure requirements are intended to provide regulators with an increased understanding of the reporting entity's separate account activity as well as how the separate account activity could affect the general account. The new disclosures, which are effective December 31, 2010, are provided in Note 9 – Separate Accounts.

In 2009, the NAIC modified SSAP No. 9, “*Subsequent Events*” (“SSAP 9”). This guidance establishes general standards for accounting and disclosures of events that occur subsequent to the balance sheet date, but before the issuance of the financial statements. In addition, the Company must disclose the date through which subsequent events have been evaluated, and the date the financial statements were issued or available to be issued. This guidance was effective for the year ending December 31, 2009. The adoption of the guidance did not have an impact on the Company's financial statements. The required disclosure of the date through which subsequent events have been evaluated is provided in Note 19 – Subsequent Events.

In 2009, the NAIC issued INT 09-04, “*Application of the Fair Value Definition*”, which provides guidance for fair value measurements and disclosures when (i) estimating the fair value of an asset or liability if there was a significant decrease in the volume and level of trading activity for these assets or liabilities and (ii) identifying transactions that are not orderly. It also clarified that fair value continues to be the amount at which an asset or liability could be bought or sold in a current transaction between willing parties, that is not in a forced liquidation sale. This guidance was effective June 30, 2009. The Company adopted this guidance effective June 30, 2009; however, it did not have a material impact on the Company's financial statements.

In November 2008, the NAIC issued SSAP No. 98, “*Treatment of Cash Flows when Quantifying Changes in Valuation and Impairments*” (“SSAP 98”), an amendment to SSAP 43 with an effective date of January 1, 2009 with early adoption permitted. The Company early adopted this guidance in 2008 and the adoption did not have a material impact on the Company's financial statements. This guidance was superseded by SSAP 43R.

In September 2008, the NAIC issued SSAP No. 99, “*Accounting for Debt Securities Subsequent to an Other-Than-Temporary Impairment*” (“SSAP 99”), which provides guidance for the accounting treatment of premium or discount for a debt security subsequent to other-than-temporary impairment recognition. This guidance was effective January 1, 2009 with early adoption permitted. The Company adopted this guidance effective January 1, 2009 with a prospective application.

### **Future Adoption of New Accounting Pronouncements**

In October 2010, the NAIC revised guidance pertaining to disclosure of withdrawal characteristics. These revisions expand the disclosure requirements for annuity actuarial reserves and deposit liabilities by withdrawal characteristics in accordance with the following categories: general account, separate account with guarantees, separate account nonguaranteed and the total. This guidance is effective as of January 1, 2011. The Company is in the process of assessing the impact of this new guidance on the notes to the financial statements.

In October 2010, the NAIC modified the definitions of loan-backed and structured securities included in SSAP 43R. The revised definition expands the requirement to include any securitized asset where the underlying cash flows are from all types of asset pools and not just those emanating from either mortgages or securities. Regardless of the underlying collateral, each security structured through a special purpose entity, trust, or limited liability company is expected to be reported as a SSAP 43R security, not as an issuer obligation under SSAP No. 26, “*Bonds, excluding Loan-Backed and Structured Securities.*”

This guidance is effective January 1, 2011. The Company is in the process of assessing the impact of this new guidance.

In October 2010, the NAIC revised SSAP No. 5, "*Liabilities, Contingencies and Impairments of Assets*". The revisions require the reporting entity to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, even if the likelihood of having to make payments under the guarantee is remote. This includes related party guarantees, except when the transaction is considered an "unlimited guarantee," such as a rating agency requirement to provide a commitment to support a subsidiary, or a guarantee made on behalf of a wholly owned subsidiary. The guidance also requires new disclosures for the reporting entity's guarantees. This guidance applies to all guarantees issued and outstanding as of December 31, 2011. The Company is in the process of assessing the impact of this new guidance.

In October 2010, the NAIC adopted substantive revisions to SSAP No. 35, "*Guaranty Fund and Other Assessments*". The revised SSAP modifies the conditions required before recognizing liabilities for insurance-related assessments. The accounting for guaranty fund assessments would be determined in accordance with the type of guaranty fund assessment imposed, and would incorporate the concept of an "obligating event" for prospective-based premiums assessments in determining whether a liability should be accrued. The Company's adoption of this guidance effective January 1, 2011 is not expected to have a material effect on the Company's financial statements.

In June 2010, the NAIC clarified its intent on bifurcation of all realized gains and losses on sales of loan-backed and structured securities. This new guidance requires a cash flow analysis at date of sale to bifurcate the realized gain or loss between credit and noncredit. The credit portion goes to AVR and the noncredit to IMR. This guidance was issued as a revision to SSAP 43R and is effective for January 1, 2011. The Company is in the process of assessing the impact of this new guidance.

### **Statutory vs. GAAP Basis of Accounting**

Financial statements prepared under NAIC SAP vary from those prepared under GAAP. The primary differences that apply to the financial statements of the Company are as follows:

- non-public majority owned subsidiaries are generally carried at net equity value with earnings of such subsidiaries recognized in net investment income only when dividends are declared whereas under GAAP, they would be consolidated with net income and recognized when earned, and dividends from such subsidiaries would be eliminated in consolidation;
- the costs related to acquiring business, principally commissions, certain policy issue expenses and sales inducements, are charged to income in the year incurred, whereas under GAAP, they would be deferred and amortized over the periods benefited;
- life insurance reserves are based on different assumptions than they are under GAAP and dividends on participating policies are recognized for the full year when approved by the Board of Directors, whereas under GAAP, they would be accrued when earned by policyholders;
- life insurance companies are required to establish an AVR by a direct charge to surplus to offset potential investment losses, whereas under GAAP, the AVR would not be recognized;
- investments in bonds are generally carried at amortized cost or values as prescribed by the NYSID, whereas under GAAP, investments in bonds that are classified as available for sale or trading would

be carried at fair value, with changes in fair value of bonds classified as available for sale charged or credited to equity, and changes in fair value of bonds classified as trading would be reflected in earnings;

- realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the IMR and amortized into investment income over the remaining life of the investment sold, whereas under GAAP, the gains and losses would be recognized in income at the time of sale;
- deferred income taxes exclude state income taxes and are admitted to the extent they can be realized within three years subject to a 15% limitation of capital and surplus with changes in the net deferred tax reflected as a component of surplus, whereas under GAAP, deferred income taxes include federal and state income taxes and changes in the deferred tax are reflected in either earnings or other comprehensive income;
- the benefit of a tax position is offset by a reserve if it is probable that the Company will have to pay additional tax and related charges as a result of a tax audit, whereas under GAAP, a tax position must be more-likely-than-not to be sustained upon examination by tax authorities before any tax benefit would be recorded in the financial statements and the amount of the benefit for any uncertain tax position would be the largest amount that is greater than 50 percent likely of being realized upon settlement;
- certain reinsurance transactions are accounted for using deposit accounting and assets and liabilities are reported net of reinsurance, whereas under GAAP, these transactions qualify for reinsurance accounting and assets and liabilities would be reported gross of reinsurance;
- certain assets, such as intangible assets, furniture and equipment, deferred taxes that are not realizable within three years and unsecured receivables are considered nonadmitted and excluded from assets, whereas they would be included under GAAP, subject to a valuation allowance, as appropriate;
- contracts that have any mortality and morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts, whereas under GAAP, contracts that do not subject the Company to significant risks arising from policyholder mortality or morbidity would be accounted for in a manner consistent with the accounting for interest bearing or other financial instruments;
- goodwill held in an insurance company is admitted subject to a 10% limitation on surplus and amortized over the useful life of the goodwill, not to exceed 10 years and goodwill held by non-insurance subsidiaries is assessed in accordance with GAAP, subject to certain limitations for holding companies and foreign insurance subsidiaries, whereas under GAAP, goodwill, which is considered to have an indefinite useful life, is tested for impairment and a loss recorded, where appropriate;
- pension and other postretirement obligations are measured for only vested employees and agents, whereas under GAAP, these costs would be measured for both vested and non-vested employees and agents;
- surplus notes are included as a component of surplus, whereas under GAAP, they would be presented as a liability;



- GAAP requires that for certain reinsurance arrangements whereby assets are retained by the ceding insurer (such as funds withheld or modified coinsurance) and a return is paid based on the performance of underlying investments, then the liabilities for these reinsurance arrangements must be adjusted to reflect the fair value of the invested assets; NAIC SAP does not contain a similar requirement;
- contracts that contain an embedded derivative are not bifurcated between components and are accounted for consistent with the host contract, whereas under GAAP the embedded derivative would be bifurcated from the host contract and accounted for separately;
- an additional minimum liability (“AML”) is required for pensions only when the accumulated benefit obligation exceeds the fair value of the plan assets (for qualified plans) or the liability reflects cumulative expenses incurred for non-qualified plans, and changes in the AML are recorded as a direct impact to surplus, whereas under GAAP, the overfunded or underfunded status of defined benefit pension and postretirement plans would be recognized as an asset or liability in the statement of financial position, and changes in the funded status would be recognized through other comprehensive income;
- all other-than-temporarily impaired corporate securities are written down to fair value and, if certain conditions are met, the non-credit portion of OTTI on a loan-back or structured security is not recognized; whereas under GAAP, if certain conditions are met, the non-credit portion of OTTI on a debt security is recorded through other comprehensive income. A non-credit loss exists when the fair value of a security is less than the present value of projected future cash flows expected to be collected;
- undistributed income and capital gains and losses for limited partnership and limited liability companies are reported in surplus as unrealized gains or losses, whereas under GAAP, in many cases, under specialized accounting treatment for investment companies, unrealized gains and losses would be included in net income;
- changes in the fair value of derivative financial instruments not carried at amortized cost are recorded as unrealized capital gains or losses and reported as changes in surplus, whereas under GAAP, these changes would generally be reported through earnings unless deemed an effective hedge;
- certain derivative instruments are carried at amortized cost, whereas under GAAP, all derivative instruments would be carried at fair value; and
- certain group annuity policies which do not pass through all investment gains to policyholders are maintained in separate accounts, whereas GAAP reports these policies in the general account assets and liabilities of the Company.

The effects on the financial statements of the variances between NAIC SAP and GAAP are material to the Company.

The following table reconciles the Company's statutory surplus determined in accordance with statutory accounting practices with consolidated New York Life GAAP equity, excluding non-controlling interests, determined on a GAAP basis (in millions):

|  | <b>Years Ended December 31,</b> |                  |
|--|---------------------------------|------------------|
|  | <b>2010</b>                     | <b>2009</b>      |
| Statutory surplus  | \$ 14,717                       | \$ 13,686        |
| AVR  | 1,477                           | 832              |
| Statutory surplus and AVR  | <u>16,194</u>                   | <u>14,518</u>    |
| Adjustments to statutory basis for:  |                                 |                  |
| Inclusion of AVR of domestic insurance companies                                   | 588                             | 491              |
| Inclusion of deferred policy acquisition cost asset ("DAC")                        | 7,038                           | 8,425            |
| Re-estimation of future policy benefits and policyholders' account balances        | (3,178)                         | (2,610)          |
| Mark-to-market on investments  | 6,048                           | 599              |
| Removal of IMR   | 382                             | 213              |
| Deferred tax asset (liability)   | (2,286)                         | (695)            |
| Inclusion of certain assets that are non-admitted for statutory accounting         | 1,778                           | 1,289            |
| Inclusion of goodwill in excess of statutory limitations                           | 405                             | 380              |
| Liability for pension and post retirement benefits                                 | (2,069)                         | (1,599)          |
| Removal of surplus notes   | (1,989)                         | (1,989)          |
| Net assets of separate accounts  | 144                             | (73)             |
| Subsidiaries held for sale   | 353                             | 471              |
| Appropriated retained earnings of consolidated variable interest entities ("VIEs") | 208                             | -                |
| Other  | 28                              | (4)              |
| Total adjustments  | <u>7,450</u>                    | <u>4,898</u>     |
| Total consolidated New York Life GAAP equity, excluding non-controlling interests  | <u>\$ 23,644</u>                | <u>\$ 19,416</u> |

The following table reconciles the Company's statutory net income determined in accordance with statutory accounting practices with consolidated New York Life GAAP net income determined on a GAAP basis (in millions):

|   | <b>Years Ended December 31,</b> |                 |
|---|---------------------------------|-----------------|
|   | <b>2010</b>                     | <b>2009</b>     |
| Statutory net gain from operations  | \$ 765                          | \$ 794          |
| Net realized capital losses   | (239)                           | (339)           |
| Statutory net income  | <u>526</u>                      | <u>455</u>      |
| Adjustments to statutory net income for:                                    |                                 |                 |
| Inclusion of net income from subsidiaries                                   | 825                             | 676             |
| Removal of dividend income from subsidiaries                                | -                               | (244)           |
| Inclusion of DAC  | (71)                            | 19              |
| Re-estimation of future policy benefits and policyholders' account balances | (39)                            | 187             |
| Policyholder dividends  | (27)                            | (96)            |
| Removal of IMR capitalizations, net of amortization                         | 91                              | 83              |
| Inclusion of GAAP net investment gains                                      | 554                             | 758             |
| Inclusion of deferred income taxes  | (256)                           | (246)           |
| Fair value adjustment of certain liabilities                                | (265)                           | (269)           |
| Inclusion of unrealized limited partnership gains                           | 240                             | 98              |
| Other   | 77                              | (94)            |
| Total adjustments   | <u>1,129</u>                    | <u>872</u>      |
| Total consolidated New York Life GAAP net income                            | <u>\$ 1,655</u>                 | <u>\$ 1,327</u> |

## **NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

### **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. Management is also required to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results may differ from those estimates.

### **Investments**

Investments are valued in accordance with methods and values prescribed by the NYSID.

Bonds other than loan-backed and structured securities are stated at amortized cost using the interest method. Bonds in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. See Note 17 – Fair Value of Financial Instruments, for discussion of valuation methods for bonds.

Loan-backed and structured securities are valued at amortized cost using the interest method including anticipated prepayments at the date of purchase. Loan-backed and structured securities in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. Changes in prepayment speeds and estimated cash flows from the original purchase assumptions are evaluated quarterly. For high credit quality loan-backed bonds and structured securities (those rated AA or above at date of acquisition), projected future cash flows are updated quarterly, and the amortized cost and effective yield of the security are adjusted to reflect historical prepayment experience and changes in estimated future

prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. The prospective yield method is used for securities that are not of high credit quality (rated below AA at date of acquisition), certain floating rate securities and securities that have the potential for loss of a portion of the original investment (e.g. interest only securities). See Note 17 – Fair Value of Financial Instruments, for discussion of valuation methods for bonds.

Preferred stocks in “good standing” (NAIC designation of 1 to 3) are valued at amortized cost. Preferred stocks “not in good standing” (NAIC designation of 4 to 6) are valued at the lower of amortized cost or fair value. See Note 17 – Fair Value of Financial Instruments, for discussion of valuation methods for preferred stocks.

Common stocks include the Company's investments in unaffiliated stocks, mutual funds and the following direct, wholly owned subsidiaries and membership interests: NYLIAC, NYLAZ, NYLI, NYLIFE LLC, and New York Life Investments.

Unaffiliated common stocks are carried at fair value. Unrealized gains and losses are reflected in surplus, net of deferred taxes. See Note 17 – Fair Value of Financial Instruments, for a discussion of valuation methods of unaffiliated common stocks.

Investments in stocks of U.S. insurance subsidiaries are carried as an asset provided their U.S. statutory net asset value is audited. Investments in stocks and membership interests of all other subsidiaries are carried as an asset provided the entity's U.S. GAAP equity is audited. In the absence of an admissible audit, the entire investment is nonadmitted. Each of the Company's subsidiaries has a U.S. GAAP audit with the exception of New York Life Haier, J.V. (“HAIER”), which is nonadmitted. The remaining subsidiaries are stated as follows: (1) domestic insurance subsidiaries are stated at the value of their underlying U.S. statutory net assets; (2) foreign insurance operations that have U.S. GAAP audits are stated at U.S. GAAP equity adjusted for certain assets that are disallowed under statutory accounting practices, otherwise the investment is nonadmitted; (3) non-insurance subsidiaries are carried at U.S. GAAP equity unless they are engaged in certain transactions that are for the benefit of the Company or its affiliates and receive 20% or more of their revenue from the Company or its affiliates. In this case, non-insurance subsidiaries are carried at U.S. GAAP equity adjusted for the same items as foreign insurance subsidiaries; (4) all other assets and liabilities in a downstream holding company are accounted for in accordance with the appropriate NAIC SAP guidance. Dividends and distributions from subsidiaries are recorded as a component of investment income when declared and changes in the equity of subsidiaries are recorded as unrealized gains or losses in surplus, net of deferred taxes.

The cost basis of bonds and equity securities is adjusted for impairments in value deemed to be other than temporary. Factors considered in evaluating whether a decline in value is other than temporary include: 1) whether the decline is substantial; 2) duration that the fair value has been less than cost; 3) the financial condition and near-term prospects of the issuer; and 4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

When a bond other than loan-backed and structured securities, preferred stock or common stock is deemed other-than-temporarily impaired, the difference between the investments' amortized cost and its fair value is recognized as a realized loss and reported in net income.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired bond is accounted for as if it had been purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income

in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

An other-than-temporary loss on loan-backed and structured securities is recognized in net income when it is anticipated that the amortized cost will not be recovered. The entire difference between the loan-backed or structured security's amortized cost and its fair value is recognized in net income only when the Company (a) has the intent to sell the security or (b) it does not have the intent and ability to hold the security to recovery. If neither of these two conditions exists, a realized loss would be recognized in net income for the difference between the amortized cost basis of the security and the net present value of projected future cash flows expected to be collected. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the loan-backed or structured security prior to impairment.

The determination of cash flow estimates in the net present value is subjective and methodologies will vary, depending on the type of security. The Company considers all information relevant to the collectability of the security, including past events, current conditions, and reasonably supportable assumptions and forecasts in developing the estimate of cash flows expected to be collected. This information generally includes, but may not be limited to, the remaining payment terms of the security, estimated prepayment speeds, defaults, recoveries upon liquidation of the underlying collateral securing the notes, the financial condition of the issuer(s), credit enhancements and other third party guarantees. In addition, other information, such as industry analyst reports and forecasts, sector credit ratings, the financial condition of the bond insurer for insured fixed income securities and other market data relevant to the collectability may also be considered, as well as the expected timing of the receipt of insured payments, if any. The estimated fair value of the collateral may be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of the collateral for recovery.

For the Non-Agency RMBS portfolio, the Company updates cash flow projections quarterly. The projections are done for each security based upon the evolution of prepayment, delinquency, and default rates for the pool of mortgages collateralizing each security, and the projected impact on the course of future prepayments, defaults, and loss in the pool of mortgages, but do not include market prices. As a result, forecasts may change from period to period and additional impairments may be recognized over time as a result of deterioration in the fundamentals of a particular security or group of securities and/or a continuation of heightened mortgage defaults for a period longer than the assumptions used for the forecasts. Both qualitative and quantitative factors are used in creating the Company's RMBS cash flow models. As such, any estimate of impairments is subject to the inherent limitation on the Company's ability to predict the aggregate course of future events. It should therefore be expected that actual losses may vary from any estimated losses and the Company may recognize additional other-than-temporary losses.

Mortgage loans on real estate are carried at unpaid principal balances, net of discounts/premiums and valuation allowances, and are secured. Specific valuation allowances are established for the excess carrying value of the mortgage loan over the estimated fair value of the collateral, when it is probable that based on current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Fair value of the collateral is estimated by obtaining a current appraisal. If impairment is deemed to be other than temporary, a direct write-down is recognized as a realized loss reported in net income, and a new cost basis, which is equal to the fair value of the collateral for the individual mortgage loan, is established. See Note 17 – Fair Value of Financial Instruments, for discussion of valuation methods for mortgage loans.

Real estate held for the production of income and home office properties are stated at cost less accumulated depreciation and encumbrances. Real estate held for sale is stated at the lower of cost less

accumulated depreciation or fair value, less encumbrances and estimated costs to sell, which may result in an other-than-temporary impairment. Depreciation of real estate is calculated using the straight-line method over the estimated lives of the assets, generally 40 years. Costs of permanent improvements are depreciated over their estimated useful life.

Policy loans are stated at the aggregate balance due. The excess of the unpaid balance of a policy loan that exceeds the cash surrender value is nonadmitted.

Limited partnerships and limited liability companies, which have admissible audits are carried at the underlying audited equity of the investee and are adjusted for impairments that are deemed other than temporary. The Company nonadmits the entire investment when an admissible audit is not performed. Dividends and distributions from limited partnerships and limited liability companies are recorded in investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in surplus, net of deferred taxes. The cost basis of limited partnerships and limited liability companies is adjusted for impairments in value deemed to be other than temporary.

Derivative instruments that are effective hedges are valued consistent with the items being hedged. Investment income or expense is recorded on an accrual basis. Gains and losses related to contracts that are effective hedges are recognized in income in the same period as the gains or losses on the hedged assets or liabilities. Generally, periodic payments received on these derivatives are reported in surplus for net investment hedges, net investment income for hedges of invested assets and other income for hedges of liabilities. Realized gains and losses recognized upon termination or maturity where the underlying is subject to the IMR are transferred, net of taxes, to the IMR. All other realized gains and losses are recognized in net income, net of taxes, upon termination or maturity of derivative contracts.

Derivative instruments that are entered into as income generation transactions are carried at fair value, with changes in fair value reported as unrealized gains and losses in surplus, net of deferred taxes. Realized gains and losses are recognized, net of taxes, in net income upon expiration or termination.

Derivative instruments that are not designated as, or do not meet the criteria of an effective hedge are carried at fair value with unrealized gains and losses reported in surplus, net of deferred taxes. Investment income or expense is recorded on an accrual basis. Generally, periodic payments received on these derivatives are reported in realized gains or losses for net investment hedges, net investment income for hedges of invested assets and other income for hedges of liabilities. Upon termination of these non-qualifying derivatives, the gain or loss is included in realized gains or losses, net of taxes. Realized gains or losses on terminated interest rate related derivatives are transferred to the IMR, net of taxes. See Note 17 – Fair Value of Financial Instruments, for a discussion of valuation methods for derivative instruments.

Short-term investments consist of securities that have original maturities of greater than three months and less than twelve months at date of purchase and are stated at amortized cost, which approximates fair value. Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at date of purchase and are stated at amortized cost, which approximates fair value.

All securities are recorded in the financial statements on a trade date basis except for the acquisition of private placement bonds, which are recorded on the funding date.

The AVR is used to stabilize surplus from fluctuations in the market value of bonds, stocks, mortgage loans, real estate, limited partnerships and other investments. Changes in the AVR are accounted for as direct increases or decreases in surplus. The IMR captures interest related realized gains and losses on

sales (net of taxes) of bonds, preferred stocks, mortgage loans, interest related other-than-temporary impairments (net of taxes) and realized gains or losses (net of taxes) on terminated interest rate related derivatives which are amortized into net income over the expected years to maturity of the investments sold or the item being hedged by the derivative using the grouped method. An interest related other-than-temporary impairment occurs when the Company has the intent to sell an investment, at the balance sheet date, before recovery of the cost of the investment. For loan-backed and structured securities, if the Company intends to sell, or does not have the intent and ability to hold the security at the balance sheet date before recovery of the cost of the investment, the non-interest related other-than-temporary impairment is booked to AVR, and the interest related portion to IMR.

### **Loaned Securities and Repurchase Agreements**

The Company has entered into securities lending agreements whereby certain general account investment securities are loaned to third parties for the purpose of enhancing income on certain securities held. Securities loaned are treated as financing arrangements, and are recorded at the amount of cash advanced or received. With respect to securities loaned, the Company requires initial collateral, usually in the form of cash, equal to 102% of the fair value of domestic securities loaned. If foreign securities are loaned and the denomination of the collateral is other than the denomination of the currency of the loaned securities, then the initial required collateral is 105% of their face value. The Company monitors the fair value of securities loaned with additional collateral obtained as necessary.

The Company enters into agreements to sell and repurchase securities for the purpose of enhancing income on the securities portfolio. Under agreements to sell and repurchase securities, the Company obtains the use of funds from a broker for generally one month. Assets to be repurchased are the same, or substantially the same, as the assets transferred. Securities sold under agreements to repurchase are treated as financing arrangements. Cash collateral received is invested in short-term investments with an offsetting collateral liability included in "Borrowed Money" in the accompanying Statutory Statements of Financial Position. The Company receives cash collateral equal to at least 95% of the fair value of the securities to be repurchased. The fair value of the securities to be repurchased is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure.

The Company enters into agreements to purchase and resell securities for the purpose of enhancing income on the securities portfolio. Securities purchased under agreements to resell are treated as investing activities and are carried at amortized cost, and it is the Company's policy to generally take possession or control of the securities purchased under these agreements. However, for tri-party repurchase agreements, the Company's designated custodian takes possession of the underlying collateral securities. Securities purchased under agreements to resell are reflected in "Cash, Cash Equivalents and Short-Term Investments" in the accompanying Statutory Statements of Financial Position. The Company receives securities as collateral, having a fair value at least equal to 102% of the purchase price paid by the Company for the securities. The fair value of the securities to be resold is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure.

### **Premiums and Related Expenses**

Life premiums are taken into income over the premium-paying period of the policies. Annuity considerations are recognized as revenue when received. Commissions and other costs associated with acquiring new business are charged to operations as incurred. Guaranteed interest contracts ("GICs") with purchase rate guarantees, which introduce an element of mortality risk, are recorded as income when received. Maturation of GICs with purchase rate guarantees are reported as payments on matured contracts. Amounts received or paid under contracts without mortality or morbidity risk are recorded

directly in the Statutory Statements of Financial Position as an adjustment to “Deposit Funds” and not reflected in the Statutory Statements of Operations.

### **Dividends to Policyholders**

The liability for dividends to policyholders consists principally of dividends expected to be paid during the subsequent year. The allocation of dividends is approved annually by the Board of Directors and is determined by means of formulas, which reflect the relative contribution of each group of policies to divisible surplus.

### **Policy Reserves**

Policy reserves are based on mortality tables and valuation interest rates, which are consistent with statutory requirements and are designed to be sufficient to provide for contractual benefits. The Company holds reserves greater than those developed under the minimum statutory reserving rules when the Valuation Actuary determines that the minimum statutory reserves are inadequate. See Note 8 – Insurance Liabilities, for a discussion of reserves in excess of minimum NAIC requirements.

### **Federal Income Taxes**

Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. DTAs and deferred federal income tax liabilities (“DTLs”) are recognized for expected future tax consequences of temporary differences between statutory and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby statutory and tax balance sheets are compared. Changes in DTAs and DTLs are recognized as a separate component of surplus (except for the net deferred tax asset related to unrealized gains, which is reclassified to be included in unrealized gains and losses). Net deferred tax assets are admitted to the extent permissible under NAIC SAP. Gross DTAs are reduced by a statutory valuation allowance, if any, if it is more likely than not that some portion or all of the gross DTA will not be realized. The benefit of a tax position is offset by a tax contingency reserve if it is probable that the Company will have to pay additional tax and related charges as a result of an adjustment by the taxing authorities during a tax audit.

The Company files a consolidated federal income tax return with certain of its domestic insurance and non-insurance subsidiaries. The consolidated income tax liability is allocated among the members of the group in accordance with a tax allocation agreement. The tax allocation agreement provides that each member of the group is allocated its share of the consolidated tax provision or benefit, determined generally on a separate company basis, but may, where applicable, recognize the tax benefits of net operating losses or capital losses utilizable in the consolidated group. Intercompany tax balances are settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return.

### **Separate Accounts**

The Company has established both non-guaranteed and guaranteed separate accounts with varying investment objectives which are segregated from the Company’s general account and are maintained for the benefit of separate account contractholders. Separate account assets are primarily invested in bonds and common stocks and are generally stated at market value. The liability for non-guaranteed separate accounts represents contractholders’ interests in the separate account assets, including accumulated net investment income and realized and unrealized gains and losses on those assets.



Guaranteed separate accounts maintained on a market value basis provide a guarantee of principal and interest for contracts held to maturity. Guaranteed separate accounts maintained on an amortized cost/book value basis provide a guarantee of principal and interest during active status, and a book value payout with market value adjustment at discontinuance.

### **Nonadmitted Assets**

Under statutory accounting practices, certain assets are designated as "nonadmitted assets" and are not included in the accompanying Statutory Statements of Financial Position since these assets are not permitted by the NYSID to be taken into account in determining an insurer's financial condition. Nonadmitted assets often include furniture and equipment, agents' debit balances, deferred tax assets not realizable within three years, receivables over 90 days old, and the prepaid pension assets on qualified plans. Changes to nonadmitted assets are reported as a direct adjustment to surplus in the Statutory Statements of Changes in Surplus.

### **Fair Values of Financial Instruments and Insurance Liabilities**

Fair values of various assets and liabilities are included throughout the notes to the financial statements. Specifically, fair value disclosure of investments held is reported in Note 3 – Investments. Fair values for derivative financial instruments are included in Note 5 – Derivative Financial Instruments and Risk Management. Fair values for insurance liabilities are reported in Note 8 – Insurance Liabilities. The aggregate fair value of all financial instruments summarized by type is included in Note 17 – Fair Values of Financial Instruments.

### **Contingencies**

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Regarding litigation, management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, includes such costs in the accrual.

### **Foreign Currency Translation**

The Company's Canadian insurance operations are stated in Canadian dollars, with a single foreign currency adjustment of the net value reflected in unrealized gains and losses as a component of surplus. For all other foreign currency items, income and expenses are translated at the average exchange rate for the period while balance sheet items are translated using the spot rate in effect at the balance sheet date. In addition, the impact of the cumulative translation adjustment on the Company's foreign insurance subsidiaries are included in investment in subsidiaries with the change reported as an unrealized gain or loss.

## **Business Risks and Uncertainties**

*In periods of extreme volatility and disruption in the securities and credit markets and under certain interest rate scenarios, the Company could be subject to disintermediation risk and/or reduction in net interest spread or profit margins.*

The Company's investment portfolio consists principally of fixed income securities as well as mortgage loans, policy loans, limited partnerships, preferred and common stocks and equity real estate. The fair value of the Company's investments varies depending on economic and market conditions and the interest rate environment. Furthermore, with respect to investments 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 these 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 will differ from original estimates and may result in material adjustments to asset values and amortization or accretion recorded in future periods.

Certain of these investments lack liquidity, such as privately placed fixed income securities; leveraged leases; equity real estate, including real estate joint ventures; and other limited partnership interests. The Company also holds certain investments in asset classes that are liquid but have been experiencing significant market fluctuations, such as mortgage-backed and other asset-backed securities. If the Company was to require significant amounts of cash on short notice in excess of cash on hand and its portfolio of liquid investments, the Company could have difficulty selling these investments in a timely manner, be forced to sell them for less than the Company otherwise would have been able to realize, or both.

In periods of high or increasing interest rates, life insurance policy loans and surrenders and withdrawals may increase as policyholders seek investments with higher perceived returns. This could result in cash outflows requiring the Company to sell invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which could cause the Company to suffer realized investment losses. In addition, when interest rates rise, the Company may face competitive pressure to increase crediting rates on certain insurance and annuity contracts, and such changes may occur more quickly than corresponding changes to the rates earned on the Company's general account investments.

During periods of low or declining interest rates, the Company is contractually obligated to credit a fixed minimum rate of interest on almost all of its life insurance and annuity policies. Should yields on new investments decline to levels below these guaranteed minimum rates for a long enough period, the Company may be required to credit interest to policyholders at a higher rate than the rate of return the Company earns on its portfolio of investments supporting those products, thus generating losses.

Although management of the Company employs a number of asset/liability management strategies to minimize the effects of interest rate volatility, no guarantee can be given that it will be successful in managing the effects of such volatility.

Issuers or borrowers whose securities or loans the Company holds, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. In addition, the underlying collateral supporting the Company's structured securities,

including mortgage-backed securities, may deteriorate or default causing these structured securities to incur losses.

Weak equity market performance may adversely affect the Company's subsidiaries' sales of variable products, mutual funds or investment management products, cause potential purchasers of the Company's products to refrain from new or additional investments, and may cause current customers to surrender or redeem their current products and investments.

Revenues of the Company's subsidiaries from variable products, mutual funds and other investment management businesses are to a large extent based on fees related to the value of assets under management (except for its Elite Annuity product, where future revenue is based on adjusted premium payments). Consequently, poor equity market performance reduces fee revenues. The level of assets under management could also be negatively affected by withdrawals or redemptions.

One of the Company's insurance subsidiaries issues certain variable products with various types of guaranteed minimum benefit features. The subsidiary establishes reserves for the expected payments resulting from these features. The Company bears the risk that payments may be higher than expected as a result of significant, sustained downturns in the stock market. The Company also bears the risk that additional reserves may be required if partial surrender activity increases significantly for some annuity products during the period when account values are less than guaranteed amounts.

The RBC ratio is the primary measure by which regulators evaluate the capital adequacy of the Company. RBC is determined by statutory rules that consider risks related to the type and quality of invested assets, insurance-related risks associated with the Company's products, interest-rate risk and general business risks. Disruptions in the capital markets could increase equity and credit losses and reduce the Company's statutory surplus and RBC ratio. To the extent that the Company's statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, the Company may seek to improve its capital position, including through operational changes and potentially seeking outside capital.

***The Company faces significant competition.***

The Company faces strong competition in its U.S. Life Insurance and Agency, Retirement Income Security, Investment Management, and International businesses. The Company's ability to compete is based on a number of factors, including product features, investment performance, service, price, distribution capabilities, scale, commission structure, name recognition and financial strength ratings. Industry consolidation, including acquisition of insurance and other financial service companies in the U.S. by international companies, could result in larger competitors with strong financial resources, marketing and distribution capabilities and brand identities.

The Company's career agency force is the primary means by which it distributes life insurance products. In order to continue increasing life insurance sales, the Company must retain and attract additional productive career agents.

Rating agencies assign the Company financial strength/claims paying ability ratings, based on their evaluations of the Company's ability to meet its financial obligations. These ratings indicate a rating agency's view of an insurance company's ability to meet its obligations to its insureds. In certain of the Company's markets, ratings are important competitive factors of insurance companies. Rating organizations continue to review the financial performance and condition of insurers, including the Company. A significant downgrade in the Company's ratings could materially and adversely affect its competitive position in the life insurance market and increase its cost of funds.

### ***Significant Estimates***

Policy reserves for the Company's products are established using tables and valuation interest rates prescribed by the NYSID. In addition, the Company holds reserves greater than those developed under minimum reserving rules when the Valuation Actuary determines that minimum statutory reserves are inadequate. Actual results could differ from these estimates and may result in the establishment of additional reserves. The Valuation Actuary monitors actual experience and, where circumstances warrant, revises assumptions and the related estimates for policy reserves.

The Company determines its pension and other post retirement benefit plan costs based on estimates, including assumed discount rates, expected rates of return on plan assets and expected increases in compensation levels and trends in health care costs. A prolonged decline in the equity markets or drop in fixed income rates may result in increased expenses and reduce the Company's profitability.

### ***Regulatory developments in the markets in which the Company operates could affect the Company's business.***

Although the federal government does not directly regulate the business of insurance, federal legislation and administrative policies in several areas, including pension regulation, financial services regulation, healthcare regulation and federal taxation, can significantly and adversely affect the insurance industry and the Company. There are a number of current or potential regulatory measures that may affect the insurance industry. The Company is unable to predict whether any changes will be made, whether any administrative or legislative proposals will be adopted in the future, or the effect, if any, such proposals would have on the Company.

The attractiveness to the Company's customers of many of its products is due, in part, to favorable tax treatment. Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable generally on income attributable to a distribution under the contract for the year in which the distribution is made. Death benefits under life insurance contracts are received free of federal income tax. Changes to the favorable tax treatment may reduce the attractiveness of the Company's products to its customers.

As substantially all of the net assets of NYLI are held in foreign countries, there is a potential for adverse impact on net assets from economic and political changes in these countries.

## NOTE 3 – INVESTMENTS

### Bonds

The carrying value and estimated fair value of bonds as of December 31, 2010 and 2009, by contractual maturity are presented below (in millions). See Note 17 – Fair Value of Financial Instruments, for discussion of valuation methods for bonds. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|   | 2010               |                            | 2009               |                            |
|---|--------------------|----------------------------|--------------------|----------------------------|
|   | Carrying<br>Amount | Estimated<br>Fair<br>Value | Carrying<br>Amount | Estimated<br>Fair<br>Value |
| Due in one year or less                   | \$ 1,739           | \$ 1,777                   | \$ 1,357           | \$ 1,386                   |
| Due after one year through five years     | 12,084             | 12,761                     | 11,052             | 11,508                     |
| Due after five years through ten years    | 13,568             | 15,035                     | 12,989             | 13,623                     |
| Due after ten years                       | 18,029             | 19,611                     | 18,768             | 19,507                     |
| Mortgage and asset-backed securities:     |                    |                            |                    |                            |
| U.S. Government or U.S. Government agency | 321                | 343                        | 149                | 156                        |
| Residential mortgage-backed securities    | 11,258             | 11,241                     | 11,042             | 10,334                     |
| Commercial mortgage-backed securities     | 5,452              | 5,554                      | 6,119              | 5,550                      |
| Other asset-backed securities             | 3,474              | 3,315                      | 3,746              | 3,439                      |
| Total                                     | <u>\$ 65,925</u>   | <u>\$ 69,637</u>           | <u>\$ 65,222</u>   | <u>\$ 65,503</u>           |

The Company has exposure to subprime and midprime residential mortgage lending through its fixed maturity investments that are collateralized by mortgages that include subprime or midprime lending. Subprime residential mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles, including using relaxed mortgage-underwriting standards that provide for affordable mortgage products. These investments are primarily in the form of asset-backed securities (“ABS”) supported by subprime or midprime mortgage loans or collateralized debt securities (“CDO”) that contain a subprime or midprime loan component. At December 31, 2010, the collective carrying value of the subprime investments was \$142 million with an unrealized loss of \$42 million. Of this amount, 76.54% had “AAA” or “AA” credit quality ratings. At December 31, 2010, the collective carrying value of the midprime investments was \$507 million with an unrealized loss of \$109 million. Of this amount, 47.35% had “AAA” or “AA” credit quality ratings. The Company manages its subprime and midprime risk exposure by limiting the Company’s holdings in these types of instruments, generally maintaining high credit quality investments, and performing ongoing analysis of cash flows, prepayment speeds, default rates and other stress variables.

At December 31, 2010 and 2009, the distribution of gross unrealized gains and losses on bonds was as follows (in millions):

|  | <b>2010</b>                |                             |                              | <b>Estimated<br/>Fair<br/>Value</b> |
|--|----------------------------|-----------------------------|------------------------------|-------------------------------------|
|  | <b>Carrying<br/>Amount</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> |                                     |
| U.S. Treasury and U.S. Government corporations | \$ 6,979                   | \$ 1,059                    | \$ 31                        | \$ 8,007                            |
| U.S. agencies, state and municipal             | 1,572                      | 30                          | 41                           | 1,561                               |
| Foreign governments                            | 1,226                      | 168                         | 6                            | 1,388                               |
| U.S. corporate                                 | 27,773                     | 2,268                       | 227                          | 29,814                              |
| Foreign corporate                              | 8,191                      | 623                         | 57                           | 8,757                               |
| Residential mortgage-backed securities         | 11,258                     | 474                         | 491                          | 11,241                              |
| Commercial mortgage-backed securities          | 5,452                      | 254                         | 152                          | 5,554                               |
| Other asset-backed bonds                       | 3,474                      | 35                          | 194                          | 3,315                               |
| <b>Total</b>                                   | <b>\$ 65,925</b>           | <b>\$ 4,911</b>             | <b>\$ 1,199</b>              | <b>\$ 69,637</b>                    |

  

|  | <b>2009</b>                |                             |                              | <b>Estimated<br/>Fair<br/>Value</b> |
|--|----------------------------|-----------------------------|------------------------------|-------------------------------------|
|  | <b>Carrying<br/>Amount</b> | <b>Unrealized<br/>Gains</b> | <b>Unrealized<br/>Losses</b> |                                     |
| U.S. Treasury and U.S. Government corporations | \$ 6,385                   | \$ 601                      | \$ 116                       | \$ 6,870                            |
| U.S. agencies, state and municipal             | 795                        | 20                          | 35                           | 780                                 |
| Foreign governments                            | 1,278                      | 126                         | 9                            | 1,395                               |
| U.S. corporate                                 | 28,032                     | 1,474                       | 530                          | 28,976                              |
| Foreign corporate                              | 7,825                      | 446                         | 112                          | 8,159                               |
| Residential mortgage-backed securities         | 11,042                     | 267                         | 975                          | 10,334                              |
| Commercial mortgage-backed securities          | 6,119                      | 68                          | 637                          | 5,550                               |
| Other asset-backed bonds                       | 3,746                      | 23                          | 330                          | 3,439                               |
| <b>Total</b>                                   | <b>\$ 65,222</b>           | <b>\$ 3,025</b>             | <b>\$ 2,744</b>              | <b>\$ 65,503</b>                    |

### Common and Preferred Stocks

The carrying value of common and preferred stocks as of December 31, 2010 and 2009 consists of the following (in millions):

|                           | <b>2010</b>     | <b>2009</b>     |
|---------------------------|-----------------|-----------------|
| Affiliated common stock   | \$ 7,333        | \$ 6,648        |
| Unaffiliated common stock | 324             | 352             |
| Preferred stock           | 77              | 62              |
| <b>Total</b>              | <b>\$ 7,734</b> | <b>\$ 7,062</b> |

The Company records its share of gains or losses from investments in subsidiaries and affiliates, including membership interests, as unrealized gains or losses. In 2010 and 2009, the Company recorded net unrealized gains of \$758 million and \$165 million, respectively.

In 2010 and 2009, the Company recorded net unrealized gains (losses) on unaffiliated common stock of \$15 million and \$(64) million, respectively.

### Mortgage Loans

The Company's mortgage loans are diversified by property type, location and borrower, and are collateralized. The maximum and minimum lending rates for commercial mortgage loans funded during 2010 were 7.50% and 3.70% (8.28% and 1.65% for 2009). There were no residential mortgage loans funded in 2010 or 2009. The maximum percentage of any one commercial loan to the value of the security at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 92.4%. The maximum percentage of any residential loan to the value of the security at the time of the loan was 80.0%. The Company has no significant credit risk exposure to any one individual borrower.

At December 31, 2010 and 2009, the distribution of the mortgage loan portfolio by property type and geographic location was as follows (in millions):

|                     | 2010            |                | 2009            |                |
|---------------------|-----------------|----------------|-----------------|----------------|
|                     | Carrying Amount | % of Total     | Carrying Amount | % of Total     |
| Property Type:      |                 |                |                 |                |
| Office Buildings    | \$ 3,461        | 36.64%         | \$ 3,251        | 34.08%         |
| Industrial          | 2,100           | 22.23%         | 2,128           | 22.31%         |
| Retail Facilities   | 2,020           | 21.39%         | 2,115           | 22.17%         |
| Apartment Buildings | 1,678           | 17.77%         | 1,789           | 18.75%         |
| Hotels              | 111             | 1.18%          | 150             | 1.57%          |
| Residential         | 71              | 0.75%          | 103             | 1.08%          |
| Other               | 4               | 0.04%          | 4               | 0.04%          |
| Total               | <u>\$ 9,445</u> | <u>100.00%</u> | <u>\$ 9,540</u> | <u>100.00%</u> |

|                      | 2010            |                | 2009            |                |
|----------------------|-----------------|----------------|-----------------|----------------|
|                      | Carrying Amount | % of Total     | Carrying Amount | % of Total     |
| Geographic Location: |                 |                |                 |                |
| Central              | \$ 2,503        | 26.50%         | \$ 2,653        | 27.81%         |
| South Atlantic       | 2,413           | 25.55%         | 2,353           | 24.66%         |
| Middle Atlantic      | 2,077           | 21.99%         | 2,047           | 21.46%         |
| Pacific              | 1,987           | 21.04%         | 2,030           | 21.28%         |
| New England          | 465             | 4.92%          | 454             | 4.76%          |
| Other                | -               | 0.00%          | 3               | 0.03%          |
| Total                | <u>\$ 9,445</u> | <u>100.00%</u> | <u>\$ 9,540</u> | <u>100.00%</u> |

For commercial and residential mortgage loans, the Company accrues interest income on loans to the extent it is deemed collectible and the loan continues to perform under its original or restructured contractual terms. The Company places loans on non-accrual status, and ceases to recognize interest income when management determines the collection of interest and repayments of principal payments are not probable. Any accrued but uncollected interest is reversed out of interest income once a loan is put on non-accrual status. Interest payments received on loans where interest payments have been deemed uncollectible, are recognized on a cash basis and recorded as interest income. If a loan in default has any investment income due and accrued that is 90 days past due and collectible, the investment income shall

continue to accrue, but all accrued interest related to the loan is reported as a nonadmitted asset. At December 31, 2010 and 2009, the Company did not have any investments in mortgage loans with interest reductions, investments in mortgage loans excluding accrued interest or investments in mortgage loans excluding advances of taxes, assessments or other advances.

At December 31, 2010, the Company had no interest on mortgage loans that was more than 90 days past due. At December 31, 2009, the Company had residential mortgage loans with a principal balance of \$1 million which were over 90 days past due and on nonaccrual status. At December 31, 2009, the Company had less than \$1 million of interest on mortgage loans that was more that were more than 180 days past due.

The Company maintains a watchlist of commercial loans that may potentially be impaired. The general guidelines analyzed to include commercial loans within the watchlist are Loan-to-Value ratio (“LTV”), asset performance such as Debt Service Coverage Ratio (“DSCR”), lease rollovers, income/expense hurdles, major tenant or borrower issues, the economic climate, and catastrophic events, among others. Loans placed on the watchlist generally take priority in being revalued in the Company’s inspection/evaluation commercial loan program that revalues properties securing commercial loans. The guideline for analyzing residential loans occurs once a loan is 60 or more days delinquent. At that point, an appraisal of the underlying asset is obtained.

Impaired mortgage loans at December 31, 2010 and 2009 were as follows (in millions):

|  | <u>2010</u> | <u>2009</u> |
|--|-------------|-------------|
| Impaired loans with related allowance for credit losses      | \$ 48       | \$ 69       |
| Related allowance for credit losses                          | \$ 5        | \$ 20       |
| Average recorded investment in impaired loans                | \$ 87       | \$ 28       |
| Interest income recognized during the period                 | \$ 3        | \$ 1        |
| Interest income recognized on a cash basis during the period | \$ 3        | \$ 1        |

The related allowance for credit losses for the years ended December 31, 2010 and 2009 is summarized below (in millions):

|  | <u>2010</u> | <u>2009</u>  |
|--|-------------|--------------|
| Beginning balance                                | \$ 20       | \$ -         |
| Additions charged to operations                  | 14          | 28           |
| Direct write-downs charged against the allowance | <u>(29)</u> | <u>(8)</u>   |
| Ending Balance                                   | <u>\$ 5</u> | <u>\$ 20</u> |

Changes in the valuation allowance for mortgage loans are recorded as unrealized gains and losses. If the loan is determined to be other-than-temporarily impaired, a realized loss is recorded.

At December 31, 2010 and 2009, the Company did not have any investments in restructured mortgage loans and no allowance for credit losses for restructured mortgage loans. During the years ended December 31, 2010 and 2009, no investments in restructured mortgage loans were foreclosed. No additional funds were committed to debtors whose terms have been modified in the years ended December 31, 2010 and 2009.



## Real Estate

At December 31, 2010 and 2009, the Company's commercial real estate portfolio, at carrying amount, consisted of the following (in millions):

|                              | <u>2010</u>   | <u>2009</u>   |
|------------------------------|---------------|---------------|
| Investment                   | \$ 92         | \$ 95         |
| Acquired through foreclosure | 58            | 63            |
| Properties for Company use   | <u>282</u>    | <u>294</u>    |
| <br>                         |               |               |
| Total commercial real estate | <u>\$ 432</u> | <u>\$ 452</u> |

Accumulated depreciation on real estate at December 31, 2010 and 2009 was \$313 million and \$293 million, respectively. Depreciation expense totaled \$20 million for both 2010 and 2009, and was recorded as an investment expense, a component of net investment income in the accompanying Statutory Statements of Operations.

The Company reported less than \$1 million consisting of one residential property and \$1 million consisting of two residential properties of real estate as held for sale, acquired through foreclosure, at December 31, 2010 and 2009, respectively. The Company had no impairments on real estate held for sale during 2010 and less than \$1 million of impairments on real estate held for sale during 2009, which are reflected in realized losses in the accompanying Statutory Statements of Operations. The Company actively markets its properties held for sale.

During both 2010 and 2009, the Company recognized less than \$1 million of realized gains on the sale of properties held for sale.

## Limited Partnerships and Other Investments

The carrying value of limited partnerships and other investments as of December 31, 2010 and 2009 is presented below (in millions):

|  | <u>2010</u>     | <u>2009</u>     |
|--|-----------------|-----------------|
| Limited partnerships and limited liability companies | \$ 4,830        | \$ 4,086        |
| New York Life Short Term Fund ("NYL STIF")           | 1,321           | 912             |
| Low income housing tax credit ("LIHTC") investment   | 349             | 285             |
| Collateralized third party loans                     | -               | 11              |
| Loans to Madison Capital Funding LLC ("MCF")         | <u>1,709</u>    | <u>1,902</u>    |
| <br>   |                 |                 |
| Total Limited Partnerships and Other Invested Assets | <u>\$ 8,209</u> | <u>\$ 7,196</u> |

Limited partnerships and limited liability companies primarily consist of limited partnership interests in venture capital, leveraged buy-out funds, real estate and other equity investments. Net unrealized gains of \$382 million and \$311 million were recorded on these investments for the years ended December 31, 2010 and 2009, respectively. The Company recognized \$143 million and \$214 million in impairment write-downs on its investment in limited partnerships and limited liability companies during the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, the Company had \$171 million and \$149 million, respectively, of investments in limited partnerships and limited liability companies that were nonadmitted. During the years ended December 31, 2010 and 2009, the change in nonadmitted assets resulted in a \$22 million charge to surplus and a \$14 million charge to surplus, respectively.

During 2000, the Company and its affiliates formed the NYL STIF to improve short-term returns through greater flexibility to choose attractive maturities and enhanced portfolio diversification. The NYL STIF primarily invests in short-term U.S. government and agency securities, CDs, bankers' acceptance notes, medium term floating rate notes, commercial paper and repurchase agreements, which maintained a weighted average maturity of fifty days during 2010. Net unrealized gains of less than \$1 million were recorded on the NYL STIF for both years ended December 31, 2010 and 2009.

The Company receives tax credits related to its investments in low income housing partnerships. The Company's unexpired tax credits on its investments in LIHTC expire within a range of less than 1 year to 12 years. The minimum holding period required for the Company's LIHTC investments extends from less than 2 years to 15 years. The LIHTC investments are periodically subject to regulatory reviews by housing authorities where the properties are located. The Company is not aware of any adverse issues related to such regulatory reviews. During 2010, there were no write-downs due to the forfeiture or ineligibility of tax credits.

See Note 6 – Related Party Transactions, for a more detailed discussion of the Loans to Madison Capital Funding.

#### **Assets on Deposit or Pledged as Collateral**

Assets with a carrying value of \$321 million and \$300 million at December 31, 2010 and 2009, respectively, were on deposit with government authorities or trustees as required by certain state insurance laws and are included within related invested assets in the accompanying Statutory Statements of Financial Position.

#### NOTE 4 – INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2010 and 2009 were as follows (in millions):

|  | <u>2010</u>     | <u>2009</u>     |
|--|-----------------|-----------------|
| Bonds                                    | \$ 3,655        | \$ 3,669        |
| Mortgage loans                           | 563             | 586             |
| Affiliated common stocks                 | -               | 244             |
| Unaffiliated common and preferred stocks | 19              | 36              |
| Real estate                              | 93              | 96              |
| Limited partnerships                     | 391             | 157             |
| Policy loans                             | 443             | 457             |
| Other investments                        | 76              | 67              |
| Short-term investments                   | 4               | 8               |
| Derivatives                              | (14)            | 2               |
| Other                                    | 5               | 9               |
| Gross investment income                  | <u>5,235</u>    | <u>5,331</u>    |
| Investment expenses                      | <u>(374)</u>    | <u>(295)</u>    |
| Net investment income                    | 4,861           | 5,036           |
| Amortization of IMR                      | <u>56</u>       | <u>25</u>       |
| Net investment income, including IMR     | <u>\$ 4,917</u> | <u>\$ 5,061</u> |

Due and accrued investment income is excluded from surplus when amounts are over 90 days past due or collection is uncertain. Due and accrued investment income excluded from net investment income in 2010 and 2009 was less than \$1 million each year.

For the years ended December 31, 2010 and 2009, realized capital gains and losses on sales computed under the specific identification method and OTTI were as follows (in millions):

|  | <b>2010</b>     |               | <b>2009</b>     |                 |
|--|-----------------|---------------|-----------------|-----------------|
|  | <b>Gains</b>    | <b>Losses</b> | <b>Gains</b>    | <b>Losses</b>   |
| Bonds  | \$ 401          | \$ 161        | \$ 348          | \$ 486          |
| Mortgage loans   | 1               | 37            | -               | 14              |
| Unaffiliated common and preferred stock                              | 16              | 6             | 318             | 118             |
| Other investments  | 5               | 143           | 4               | 222             |
| Derivatives  | 292             | 418           | 334             | 506             |
| Other  | 6               | 54            | -               | 104             |
|  | <u>\$ 721</u>   | <u>\$ 819</u> | <u>\$ 1,004</u> | <u>\$ 1,450</u> |
| Net realized capital (losses) before tax and transfers to the IMR    | <u>\$ (98)</u>  |               | <u>\$ (446)</u> |                 |
| Less:  |                 |               |                 |                 |
| Capital gains tax benefit  | 6               |               | 215             |                 |
| Net realized capital losses (gains) after-tax transferred to the IMR | <u>(147)</u>    |               | <u>(108)</u>    |                 |
| Net realized capital (losses) after-tax and transfers to the IMR     | <u>\$ (239)</u> |               | <u>\$ (339)</u> |                 |

The following table provides a summary of other-than-temporary impairment losses included as realized capital losses (in millions):

|  | <b>2010</b>     | <b>2009</b>     |
|--|-----------------|-----------------|
| Limited partnerships and other investments | \$ (143)        | \$ (214)        |
| Bonds                                      | (127)           | (328)           |
| Unaffiliated common and preferred stocks   | (5)             | (30)            |
| Mortgage loans                             | <u>(3)</u>      | <u>(8)</u>      |
| Total                                      | <u>\$ (278)</u> | <u>\$ (580)</u> |

Proceeds from investments in bonds sold were \$19,091 million and \$14,873 million for the years ended December 31, 2010 and 2009, respectively.

The Company did not have any loan-backed and structured securities which were other-than-temporarily impaired where the Company intended to sell, or did not have the intent and ability to hold until recovery.

The following table lists each loan-backed and structured security at a CUSIP level where the present value of cash flows expected to be collected is less than the amortized cost basis at each of the financial statement reporting dates listed below (in thousands).

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010**

| (1)                    | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|------------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup>   | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| <b>General Account</b> |  |                         |  |  |            |   |
| 00442KAB7              | 8,681  | 8,426                   | 255  | 8,426  | 3,644      | 12/31/2010                              |
| 02147GAC8              | 10,702   | 10,558                  | 144  | 10,558   | 7,393      | 12/31/2010                              |
| 02147XAS6              | 1,888  | 1,809                   | 79   | 1,809  | 1,144      | 12/31/2010                              |
| 02149DAE9              | 14,438   | 14,419                  | 19   | 14,419   | 11,929     | 12/31/2010                              |
| 02660TGR8              | 1,648  | 1,498                   | 150  | 1,498  | 691        | 12/31/2010                              |
| 040104TF8              | 751  | 723                     | 28   | 723  | 270        | 12/31/2010                              |
| 058933BH4              | 2  | 0                       | 2  | 0  | 0          | 12/31/2010                              |
| 059469AF3              | 7,345  | 6,749                   | 596  | 6,749  | 5,344      | 12/31/2010                              |
| 05950GBR3              | 495  | 0                       | 495  | 0  | 7          | 12/31/2010                              |
| 07386HXZ9              | 3,325  | 3,288                   | 37   | 3,288  | 2,495      | 12/31/2010                              |
| 07386HYA3              | 541  | 482                     | 59   | 482  | 327        | 12/31/2010                              |
| 12489WNN0              | 25   | 24                      | 0  | 24   | 24         | 12/31/2010                              |
| 12627HAK6              | 4,643  | 4,423                   | 220  | 4,423  | 3,326      | 12/31/2010                              |
| 12628KAD4              | 111  | 111                     | 0  | 111  | 90         | 12/31/2010                              |
| 12628KAF9              | 1,984  | 1,963                   | 20   | 1,963  | 1,155      | 12/31/2010                              |
| 12628LAJ9              | 3,366  | 3,214                   | 152  | 3,214  | 2,183      | 12/31/2010                              |
| 12638PAE9              | 1,506  | 1,484                   | 22   | 1,484  | 1,148      | 12/31/2010                              |
| 126670LF3              | 411  | 404                     | 7  | 404  | 286        | 12/31/2010                              |
| 126673HC9              | 156  | 154                     | 2  | 154  | 147        | 12/31/2010                              |
| 12667GPU1              | 2,315  | 2,278                   | 36   | 2,278  | 1,983      | 12/31/2010                              |
| 12668AQ65              | 4,310  | 4,300                   | 10   | 4,300  | 3,155      | 12/31/2010                              |
| 12668AYU3              | 8,463  | 8,416                   | 46   | 8,416  | 5,998      | 12/31/2010                              |
| 12668BFB4              | 4,507  | 4,421                   | 86   | 4,421  | 4,351      | 12/31/2010                              |
| 12668WAC1              | 230  | 227                     | 2  | 227  | 133        | 12/31/2010                              |
| 12668WAF4              | 224  | 222                     | 2  | 222  | 179        | 12/31/2010                              |
| 15132EKT4              | 404  | 403                     | 1  | 403  | 246        | 12/31/2010                              |
| 170256AB7              | 97   | 91                      | 6  | 91   | 83         | 12/31/2010                              |
| 172973S75              | 954  | 945                     | 9  | 945  | 947        | 12/31/2010                              |
| 17307GT65              | 236  | 125                     | 111  | 125  | 169        | 12/31/2010                              |
| 17309BAB3              | 469  | 463                     | 5  | 463  | 348        | 12/31/2010                              |
| 17309YAF4              | 4,828  | 4,821                   | 7  | 4,821  | 3,307      | 12/31/2010                              |
| 225470E74              | 61   | 55                      | 7  | 55   | 44         | 12/31/2010                              |
| 251511AC5              | 4,134  | 4,076                   | 58   | 4,076  | 3,025      | 12/31/2010                              |
| 251511AF8              | 7,031  | 6,916                   | 115  | 6,916  | 5,046      | 12/31/2010                              |
| 251513BC0              | 3,126  | 3,083                   | 43   | 3,083  | 2,261      | 12/31/2010                              |
| 251563EP3              | 1,449  | 1,447                   | 2  | 1,447  | 1,287      | 12/31/2010                              |
| 32029HAB8              | 3,014  | 2,787                   | 226  | 2,787  | 2,550      | 12/31/2010                              |
| 32051GXC4              | 3,751  | 3,670                   | 82   | 3,670  | 3,603      | 12/31/2010                              |
| 3622E8AC9              | 865  | 852                     | 13   | 852  | 628        | 12/31/2010                              |
| 3622E8AF2              | 6,354  | 6,250                   | 104  | 6,250  | 3,912      | 12/31/2010                              |
| 3622ELAG1              | 3,938  | 3,905                   | 33   | 3,905  | 2,852      | 12/31/2010                              |
| 3622EUAB2              | 571  | 567                     | 4  | 567  | 401        | 12/31/2010                              |
| 3622EUAC0              | 3,055  | 3,033                   | 22   | 3,033  | 2,063      | 12/31/2010                              |
| 3622EUAF3              | 2,349  | 2,334                   | 15   | 2,334  | 1,638      | 12/31/2010                              |
| 362334MD3              | 197  | 192                     | 5  | 192  | 178        | 12/31/2010                              |
| 362341N39              | 3,640  | 3,428                   | 212  | 3,428  | 1,693      | 12/31/2010                              |
| 362375AF4              | 20,915   | 20,785                  | 130  | 20,785   | 16,215     | 12/31/2010                              |
| 456606MZ2              | 879  | 850                     | 29   | 850  | 282        | 12/31/2010                              |
| 45660LDD8              | 148  | 147                     | 0  | 147  | 139        | 12/31/2010                              |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 45660LGQ6            | 3,578  | 3,552                   | 26   | 3,552  | 2,577      | 12/31/2010                              |
| 45660LSY6            | 13,034   | 12,973                  | 60   | 12,973   | 11,193     | 12/31/2010                              |
| 45661HAR8            | 8,651  | 8,348                   | 303  | 8,348  | 7,677      | 12/31/2010                              |
| 456673AB8            | 1,663  | 1,366                   | 297  | 1,366  | 699        | 12/31/2010                              |
| 46412RAA3            | 10,841   | 9,878                   | 963  | 9,878  | 3,821      | 12/31/2010                              |
| 46627MEA1            | 2,473  | 2,317                   | 156  | 2,317  | 1,937      | 12/31/2010                              |
| 46628SAK9            | 27   | 21                      | 6  | 21   | 18         | 12/31/2010                              |
| 46629BAF6            | 4,176  | 4,094                   | 81   | 4,094  | 3,731      | 12/31/2010                              |
| 576433XW1            | 1,331  | 1,330                   | 2  | 1,330  | 990        | 12/31/2010                              |
| 576434V84            | 20,566   | 20,093                  | 473  | 20,093   | 16,521     | 12/31/2010                              |
| 57644DAR4            | 1,929  | 1,745                   | 184  | 1,745  | 548        | 12/31/2010                              |
| 59020UXH3            | 5,725  | 5,695                   | 30   | 5,695  | 4,511      | 12/31/2010                              |
| 59020UYW9            | 990  | 837                     | 153  | 837  | 778        | 12/31/2010                              |
| 61748HYC9            | 2,049  | 1,936                   | 113  | 1,936  | 615        | 12/31/2010                              |
| 61749EAD9            | 981  | 974                     | 7  | 974  | 681        | 12/31/2010                              |
| 61749EAE7            | 394  | 391                     | 3  | 391  | 277        | 12/31/2010                              |
| 61749EAH0            | 2,955  | 2,936                   | 19   | 2,936  | 1,981      | 12/31/2010                              |
| 61750YAD1            | 2,976  | 2,622                   | 353  | 2,622  | 2,116      | 12/31/2010                              |
| 61752RAH5            | 936  | 925                     | 12   | 925  | 662        | 12/31/2010                              |
| 61752RAJ1            | 1,399  | 1,382                   | 17   | 1,382  | 1,009      | 12/31/2010                              |
| 61752RAM4            | 5,563  | 5,471                   | 92   | 5,471  | 3,934      | 12/31/2010                              |
| 65536VAC1            | 221  | 217                     | 4  | 217  | 151        | 12/31/2010                              |
| 68402VAE2            | 437  | 436                     | 1  | 436  | 226        | 12/31/2010                              |
| 69121PCK7            | 4,091  | 3,680                   | 411  | 3,680  | 3,140      | 12/31/2010                              |
| 69336RCY4            | 323  | 313                     | 10   | 313  | 217        | 12/31/2010                              |
| 69336RDR8            | 658  | 653                     | 4  | 653  | 226        | 12/31/2010                              |
| 69337NAJ7            | 733  | 623                     | 110  | 623  | 49         | 12/31/2010                              |
| 73316PDT4            | 201  | 195                     | 6  | 195  | 48         | 12/31/2010                              |
| 76110WMW3            | 361  | 360                     | 1  | 360  | 210        | 12/31/2010                              |
| 76114CAD8            | 9,102  | 8,378                   | 724  | 8,378  | 7,182      | 12/31/2010                              |
| 76114QAC9            | 13,685   | 13,618                  | 67   | 13,618   | 11,639     | 12/31/2010                              |
| 785778MK4            | 1,689  | 1,658                   | 31   | 1,658  | 619        | 12/31/2010                              |
| 81377CAD0            | 6  | 5                       | 1  | 5  | 2          | 12/31/2010                              |
| 83743SAA4            | 980  | 871                     | 108  | 871  | 343        | 12/31/2010                              |
| 863579B49            | 5,761  | 4,843                   | 918  | 4,843  | 3,948      | 12/31/2010                              |
| 863579G85            | 321  | 308                     | 13   | 308  | 309        | 12/31/2010                              |
| 863579U89            | 129  | 124                     | 5  | 124  | 72         | 12/31/2010                              |
| 86362TAF4            | 1,477  | 1,447                   | 30   | 1,447  | 928        | 12/31/2010                              |
| 86362YAF3            | 10,000   | 9,979                   | 21   | 9,979  | 89         | 12/31/2010                              |
| 87222PAD5            | 1,957  | 1,923                   | 34   | 1,923  | 1,883      | 12/31/2010                              |
| 93362FAB9            | 11,749   | 9,185                   | 2,564  | 9,185  | 7,713      | 12/31/2010                              |
| 93363PAK6            | 3,009  | 2,447                   | 562  | 2,447  | 2,197      | 12/31/2010                              |
| 939344AM9            | 186  | 162                     | 24   | 162  | 181        | 12/31/2010                              |
| 93934FLB6            | 9,351  | 9,243                   | 108  | 9,243  | 8,444      | 12/31/2010                              |
| 93935YAA8            | 2,558  | 2,507                   | 51   | 2,507  | 1,671      | 12/31/2010                              |
| 94983JAJ1            | 953  | 700                     | 254  | 700  | 137        | 12/31/2010                              |
| 94983JAK8            | 38   | 15                      | 23   | 15   | 16         | 12/31/2010                              |
| 94983YAL3            | 451  | 427                     | 24   | 427  | 407        | 12/31/2010                              |
| G25768AA3            | 5,748  | 3,683                   | 2,065  | 3,683  | 944        | 12/31/2010                              |
| 00442KAB7            | 9,091  | 8,846                   | 245  | 8,846  | 3,533      | 9/30/2010                               |
| 02147GAC8            | 10,808   | 10,702                  | 106  | 10,702   | 7,109      | 9/30/2010                               |
| 02147QAF9            | 5,714  | 5,676                   | 38   | 5,676  | 3,969      | 9/30/2010                               |
| 02149DAE9            | 18,653   | 14,438                  | 4,215  | 14,438   | 12,299     | 9/30/2010                               |
| 02151HAA3            | 11,129   | 10,423                  | 707  | 10,423   | 8,499      | 9/30/2010                               |
| 02660TGR8            | 1,773  | 1,701                   | 71   | 1,701  | 708        | 9/30/2010                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 040104TF8            | 765  | 764                     | 1  | 764  | 282        | 9/30/2010                               |
| 04271AAD3            | 10,000   | 9,821                   | 179  | 9,821  | 8,849      | 9/30/2010                               |
| 058933BG6            | 1,968  | 103                     | 1,864  | 103  | 78         | 9/30/2010                               |
| 05946XHV8            | 876  | 870                     | 6  | 870  | 706        | 9/30/2010                               |
| 07386HXZ9            | 3,405  | 3,375                   | 29   | 3,375  | 2,727      | 9/30/2010                               |
| 07386HYA3            | 658  | 549                     | 109  | 549  | 409        | 9/30/2010                               |
| 12489WNN0            | 1,697  | 1,695                   | 1  | 1,695  | 1,570      | 9/30/2010                               |
| 12566VAN2            | 17,808   | 16,645                  | 1,163  | 16,645   | 12,790     | 9/30/2010                               |
| 12628KAD4            | 121  | 111                     | 10   | 111  | 71         | 9/30/2010                               |
| 12628KAF9            | 2,068  | 2,042                   | 26   | 2,042  | 1,199      | 9/30/2010                               |
| 12629EAD7            | 208  | 206                     | 2  | 206  | 141        | 9/30/2010                               |
| 12638PAE9            | 1,549  | 1,538                   | 10   | 1,538  | 1,228      | 9/30/2010                               |
| 126670LF3            | 475  | 415                     | 59   | 415  | 313        | 9/30/2010                               |
| 126673HC9            | 180  | 160                     | 20   | 160  | 146        | 9/30/2010                               |
| 12667G7X5            | 10,229   | 9,817                   | 412  | 9,817  | 7,321      | 9/30/2010                               |
| 12667GPU1            | 12,250   | 11,977                  | 273  | 11,977   | 10,644     | 9/30/2010                               |
| 12668AQ65            | 4,361  | 4,310                   | 50   | 4,310  | 3,098      | 9/30/2010                               |
| 12668AYL3            | 16,791   | 16,652                  | 139  | 16,652   | 11,304     | 9/30/2010                               |
| 12668AYU3            | 8,541  | 8,463                   | 79   | 8,463  | 5,744      | 9/30/2010                               |
| 12668BFB4            | 4,895  | 4,507                   | 388  | 4,507  | 4,421      | 9/30/2010                               |
| 12668BKG7            | 6,081  | 5,574                   | 507  | 5,574  | 4,683      | 9/30/2010                               |
| 12668WAC1            | 250  | 230                     | 20   | 230  | 135        | 9/30/2010                               |
| 12668WAF4            | 226  | 225                     | 1  | 225  | 179        | 9/30/2010                               |
| 126694FW3            | 3,032  | 3,010                   | 21   | 3,010  | 2,703      | 9/30/2010                               |
| 126694UJ5            | 6,153  | 5,310                   | 844  | 5,310  | 5,093      | 9/30/2010                               |
| 15132EKT4            | 426  | 425                     | 0  | 425  | 262        | 9/30/2010                               |
| 170256AB7            | 125  | 124                     | 1  | 124  | 70         | 9/30/2010                               |
| 172973S75            | 12,111   | 11,888                  | 223  | 11,888   | 11,718     | 9/30/2010                               |
| 17307GPS1            | 1,326  | 1,292                   | 34   | 1,292  | 1,004      | 9/30/2010                               |
| 17309BAB3            | 546  | 532                     | 14   | 532  | 369        | 9/30/2010                               |
| 225470A86            | 8,090  | 7,956                   | 134  | 7,956  | 5,656      | 9/30/2010                               |
| 225470E74            | 90   | 64                      | 26   | 64   | 53         | 9/30/2010                               |
| 251510GQ0            | 1,086  | 994                     | 92   | 994  | 587        | 9/30/2010                               |
| 251510LM3            | 2,493  | 2,452                   | 41   | 2,452  | 1,784      | 9/30/2010                               |
| 251511AC5            | 4,197  | 4,134                   | 63   | 4,134  | 3,175      | 9/30/2010                               |
| 251511AE1            | 1,392  | 1,380                   | 12   | 1,380  | 914        | 9/30/2010                               |
| 251511AF8            | 7,431  | 7,092                   | 339  | 7,092  | 4,351      | 9/30/2010                               |
| 251513BC0            | 3,229  | 3,199                   | 30   | 3,199  | 2,257      | 9/30/2010                               |
| 32028TAF4            | 3,000  | 2,859                   | 141  | 2,859  | 6          | 9/30/2010                               |
| 32051GXC4            | 3,950  | 3,789                   | 161  | 3,789  | 3,804      | 9/30/2010                               |
| 32051GZR9            | 24,165   | 22,984                  | 1,181  | 22,984   | 17,402     | 9/30/2010                               |
| 3622E8AC9            | 984  | 889                     | 95   | 889  | 647        | 9/30/2010                               |
| 3622E8AF2            | 6,645  | 6,513                   | 132  | 6,513  | 4,009      | 9/30/2010                               |
| 3622ELAG1            | 4,054  | 3,982                   | 72   | 3,982  | 2,927      | 9/30/2010                               |
| 3622EUAB2            | 588  | 586                     | 2  | 586  | 415        | 9/30/2010                               |
| 3622EUAC0            | 3,145  | 3,133                   | 11   | 3,133  | 2,132      | 9/30/2010                               |
| 3622EUAF3            | 2,425  | 2,417                   | 9  | 2,417  | 1,699      | 9/30/2010                               |
| 362334MD3            | 252  | 199                     | 53   | 199  | 173        | 9/30/2010                               |
| 362341N39            | 3,872  | 3,741                   | 131  | 3,741  | 1,370      | 9/30/2010                               |
| 362375AF4            | 21,576   | 21,300                  | 276  | 21,300   | 16,837     | 9/30/2010                               |
| 36244SAF5            | 1,578  | 1,560                   | 18   | 1,560  | 1,135      | 9/30/2010                               |
| 45660LDD8            | 258  | 255                     | 3  | 255  | 240        | 9/30/2010                               |
| 45660LGQ6            | 3,824  | 3,653                   | 171  | 3,653  | 2,721      | 9/30/2010                               |
| 45660LS75            | 13,356   | 13,235                  | 121  | 13,235   | 10,152     | 9/30/2010                               |
| 45660LSY6            | 13,368   | 13,109                  | 260  | 13,109   | 11,005     | 9/30/2010                               |
| 45661HAR8            | 9,219  | 8,651                   | 568  | 8,651  | 7,511      | 9/30/2010                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 46412RAA3            | 9,937  | 9,762                   | 176  | 9,762  | 3,400      | 9/30/2010                               |
| 46628SAK9            | 72   | 39                      | 33   | 39   | 31         | 9/30/2010                               |
| 55265K4Z9            | 93   | 87                      | 6  | 87   | 83         | 9/30/2010                               |
| 576433XW1            | 1,495  | 1,368                   | 127  | 1,368  | 1,122      | 9/30/2010                               |
| 59020UXH3            | 6,488  | 5,858                   | 630  | 5,858  | 4,617      | 9/30/2010                               |
| 59020UYW9            | 4,880  | 997                     | 3,883  | 997  | 761        | 9/30/2010                               |
| 61748HFC0            | 734  | 725                     | 8  | 725  | 672        | 9/30/2010                               |
| 61749EAD9            | 1,011  | 1,001                   | 9  | 1,001  | 704        | 9/30/2010                               |
| 61749EAE7            | 406  | 402                     | 4  | 402  | 286        | 9/30/2010                               |
| 61749EAH0            | 3,054  | 3,023                   | 32   | 3,023  | 2,045      | 9/30/2010                               |
| 61750YAB5            | 176  | 137                     | 39   | 137  | 144        | 9/30/2010                               |
| 61750YAE9            | 3,333  | 3,239                   | 93   | 3,239  | 2,672      | 9/30/2010                               |
| 61750YAJ8            | 3,618  | 3,512                   | 106  | 3,512  | 3,047      | 9/30/2010                               |
| 68402VAE2            | 441  | 437                     | 4  | 437  | 210        | 9/30/2010                               |
| 69336RCY4            | 899  | 325                     | 574  | 325  | 213        | 9/30/2010                               |
| 69336RDR8            | 701  | 662                     | 39   | 662  | 222        | 9/30/2010                               |
| 73316PDT4            | 203  | 201                     | 2  | 201  | 50         | 9/30/2010                               |
| 76110HS34            | 4,921  | 4,910                   | 11   | 4,910  | 3,923      | 9/30/2010                               |
| 76114QAC9            | 14,223   | 14,047                  | 176  | 14,047   | 7,223      | 9/30/2010                               |
| 785778MK4            | 1,980  | 1,760                   | 220  | 1,760  | 646        | 9/30/2010                               |
| 81377CAD0            | 8  | 8                       | 1  | 8  | 3          | 9/30/2010                               |
| 83743SAA4            | 1,409  | 1,013                   | 397  | 1,013  | 343        | 9/30/2010                               |
| 863579KZ0            | 1,041  | 1,023                   | 18   | 1,023  | 729        | 9/30/2010                               |
| 86359AF57            | 115  | 115                     | 0  | 115  | 98         | 9/30/2010                               |
| 86359DQR1            | 8,669  | 7,011                   | 1,659  | 7,011  | 2,948      | 9/30/2010                               |
| 86362TAF4            | 1,514  | 1,477                   | 37   | 1,477  | 959        | 9/30/2010                               |
| 87222PAD5            | 1,985  | 1,957                   | 28   | 1,957  | 1,911      | 9/30/2010                               |
| 93363NAB1            | 4,155  | 3,897                   | 258  | 3,897  | 3,887      | 9/30/2010                               |
| 93935HAD9            | 14,483   | 10,557                  | 3,925  | 10,557   | 5,799      | 9/30/2010                               |
| 93935YAA8            | 2,644  | 2,619                   | 25   | 2,619  | 1,589      | 9/30/2010                               |
| 93936HAP1            | 15,849   | 13,537                  | 2,312  | 13,537   | 10,117     | 9/30/2010                               |
| 94983JAJ1            | 1,106  | 954                     | 151  | 954  | 61         | 9/30/2010                               |
| 94984AAR1            | 10,950   | 10,442                  | 508  | 10,442   | 6,840      | 9/30/2010                               |
| 46628SAL7            | 5  | 2                       | 3  | 2  | 2          | 6/30/2010                               |
| 02147GAC8            | 10,818   | 10,808                  | 10   | 10,808   | 6,429      | 6/30/2010                               |
| 02147QAF9            | 5,759  | 5,714                   | 45   | 5,714  | 3,590      | 6/30/2010                               |
| 02660TGR8            | 1,898  | 1,829                   | 69   | 1,829  | 766        | 6/30/2010                               |
| 058933BH4            | 10   | 6                       | 4  | 6  | 5          | 6/30/2010                               |
| 05950GBQ5            | 661  | 346                     | 315  | 346  | 614        | 6/30/2010                               |
| 05953YAA9            | 1,220  | 1,195                   | 25   | 1,195  | 716        | 6/30/2010                               |
| 07384MZ54            | 214  | 199                     | 15   | 199  | 212        | 6/30/2010                               |
| 07386HYA3            | 880  | 667                     | 213  | 667  | 471        | 6/30/2010                               |
| 12628KAF9            | 2,136  | 2,118                   | 18   | 2,118  | 1,142      | 6/30/2010                               |
| 12629EAD7            | 215  | 211                     | 4  | 211  | 133        | 6/30/2010                               |
| 12638PAE9            | 1,597  | 1,582                   | 15   | 1,582  | 1,043      | 6/30/2010                               |
| 126670LF3            | 609  | 484                     | 125  | 484  | 345        | 6/30/2010                               |
| 126673HC9            | 209  | 187                     | 22   | 187  | 149        | 6/30/2010                               |
| 12667G7X5            | 4,522  | 4,484                   | 37   | 4,484  | 3,080      | 6/30/2010                               |
| 126686AB0            | 2,194  | 2,158                   | 36   | 2,158  | 1,608      | 6/30/2010                               |
| 12668AYL3            | 16,948   | 16,791                  | 157  | 16,791   | 10,509     | 6/30/2010                               |
| 12668AYU3            | 8,563  | 8,541                   | 22   | 8,541  | 5,250      | 6/30/2010                               |
| 12668BFB4            | 5,064  | 4,895                   | 169  | 4,895  | 4,152      | 6/30/2010                               |
| 12668BKG7            | 11,235   | 11,183                  | 52   | 11,183   | 8,689      | 6/30/2010                               |
| 149837AA4            | 3,384  | 2,380                   | 1,004  | 2,380  | 1,795      | 6/30/2010                               |
| 15132ELH9            | 253  | 249                     | 4  | 249  | 97         | 6/30/2010                               |
| 170256AB7            | 164  | 129                     | 34   | 129  | 89         | 6/30/2010                               |



**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 17307GPS1            | 1,411  | 1,363                   | 48   | 1,363  | 1,020      | 6/30/2010                               |
| 17307GT65            | 1,211  | 605                     | 606  | 605  | 1,017      | 6/30/2010                               |
| 17307GW61            | 4,276  | 3,247                   | 1,029  | 3,247  | 2,060      | 6/30/2010                               |
| 18976GAV8            | 9,818  | 9,806                   | 12   | 9,806  | 5,800      | 6/30/2010                               |
| 22541NSQ3            | 364  | 300                     | 64   | 300  | 350        | 6/30/2010                               |
| 225470E74            | 215  | 163                     | 52   | 163  | 149        | 6/30/2010                               |
| 251510GQ0            | 1,248  | 1,099                   | 149  | 1,099  | 643        | 6/30/2010                               |
| 251510LM3            | 2,803  | 2,792                   | 11   | 2,792  | 1,983      | 6/30/2010                               |
| 251511AC5            | 4,256  | 4,197                   | 59   | 4,197  | 2,855      | 6/30/2010                               |
| 251511AE1            | 1,446  | 1,420                   | 26   | 1,420  | 870        | 6/30/2010                               |
| 251511AF8            | 5,325  | 5,244                   | 81   | 5,244  | 3,123      | 6/30/2010                               |
| 251513BC0            | 3,342  | 3,294                   | 48   | 3,294  | 2,154      | 6/30/2010                               |
| 32051GZR9            | 6,371  | 6,332                   | 39   | 6,332  | 4,343      | 6/30/2010                               |
| 35907WAJ8            | 39   | 32                      | 7  | 32   | 36         | 6/30/2010                               |
| 36185MDU3            | 19   | 10                      | 9  | 10   | 18         | 6/30/2010                               |
| 3622E8AF2            | 6,847  | 6,766                   | 81   | 6,766  | 3,877      | 6/30/2010                               |
| 3622EUAB2            | 615  | 604                     | 10   | 604  | 402        | 6/30/2010                               |
| 3622EUAC0            | 3,290  | 3,234                   | 55   | 3,234  | 2,047      | 6/30/2010                               |
| 3622EUAF3            | 2,548  | 2,503                   | 46   | 2,503  | 1,638      | 6/30/2010                               |
| 362334MD3            | 291  | 257                     | 34   | 257  | 251        | 6/30/2010                               |
| 362375AF4            | 21,897   | 21,870                  | 28   | 21,870   | 16,265     | 6/30/2010                               |
| 36244SAF5            | 1,634  | 1,621                   | 13   | 1,621  | 1,087      | 6/30/2010                               |
| 45660LDD8            | 163  | 163                     | 0  | 163  | 155        | 6/30/2010                               |
| 456673AB8            | 2,537  | 1,738                   | 799  | 1,738  | 1,067      | 6/30/2010                               |
| 46628SAK9            | 103  | 77                      | 26   | 77   | 68         | 6/30/2010                               |
| 46629BAF6            | 4,296  | 4,236                   | 60   | 4,236  | 3,818      | 6/30/2010                               |
| 55265K4Z9            | 104  | 97                      | 8  | 97   | 9          | 6/30/2010                               |
| 57643MGK4            | 103  | 101                     | 1  | 101  | 84         | 6/30/2010                               |
| 61749EAD9            | 1,040  | 1,017                   | 23   | 1,017  | 779        | 6/30/2010                               |
| 61749EAE7            | 418  | 409                     | 9  | 409  | 322        | 6/30/2010                               |
| 61749EAH0            | 3,178  | 3,105                   | 72   | 3,105  | 2,122      | 6/30/2010                               |
| 61750YAE9            | 3,348  | 3,333                   | 15   | 3,333  | 2,528      | 6/30/2010                               |
| 61750YAJ8            | 3,677  | 3,651                   | 26   | 3,651  | 2,913      | 6/30/2010                               |
| 61751PAA5            | 5,584  | 4,850                   | 734  | 4,850  | 3,341      | 6/30/2010                               |
| 61752RAM4            | 5,665  | 5,665                   | 0  | 5,665  | 3,925      | 6/30/2010                               |
| 65536VAC1            | 226  | 225                     | 1  | 225  | 147        | 6/30/2010                               |
| 69336RCY4            | 913  | 904                     | 9  | 904  | 207        | 6/30/2010                               |
| 76114QAC9            | 14,393   | 14,223                  | 170  | 14,223   | 6,644      | 6/30/2010                               |
| 863579G85            | 379  | 336                     | 43   | 336  | 294        | 6/30/2010                               |
| 863579U89            | 411  | 228                     | 182  | 228  | 403        | 6/30/2010                               |
| 86359AF57            | 128  | 126                     | 2  | 126  | 106        | 6/30/2010                               |
| 86362TAF4            | 1,567  | 1,514                   | 53   | 1,514  | 912        | 6/30/2010                               |
| 87222PAD5            | 1,989  | 1,985                   | 4  | 1,985  | 1,804      | 6/30/2010                               |
| 92925CDU3            | 59   | 29                      | 29   | 29   | 54         | 6/30/2010                               |
| 93934FLB6            | 9,133  | 9,081                   | 51   | 9,081  | 7,177      | 6/30/2010                               |
| 941034AB6            | 2,091  | 31                      | 2,060  | 31   | 1,875      | 6/30/2010                               |
| 94984AAR1            | 16,767   | 16,631                  | 136  | 16,631   | 10,190     | 6/30/2010                               |
| 46628SAL7            | 32   | 9                       | 23   | 9  | 8          | 3/31/2010                               |
| 01448QAC4            | 4,000  | 3,440                   | 560  | 3,440  | 679        | 3/31/2010                               |
| 02147GAC8            | 11,098   | 10,818                  | 280  | 10,818   | 6,283      | 3/31/2010                               |
| 02147QAF9            | 6,375  | 5,759                   | 616  | 5,759  | 2,357      | 3/31/2010                               |
| 02660TAX1            | 1,048  | 981                     | 67   | 981  | 944        | 3/31/2010                               |
| 02660TGR8            | 2,370  | 1,948                   | 422  | 1,948  | 819        | 3/31/2010                               |
| 040104TF8            | 809  | 802                     | 7  | 802  | 277        | 3/31/2010                               |
| 058933BH4            | 21   | 10                      | 11   | 10   | 6          | 3/31/2010                               |
| 05946XHV8            | 943  | 935                     | 8  | 935  | 828        | 3/31/2010                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 05950GBQ5            | 3,957  | 368                     | 3,294  | 663  | 663        | 3/31/2010                               |
| 05951FAK0            | 429  | 424                     | 4  | 424  | 261        | 3/31/2010                               |
| 05951KAZ6            | 423  | 410                     | 13   | 410  | 313        | 3/31/2010                               |
| 05951KBA0            | 10,192   | 9,772                   | 420  | 9,772  | 7,021      | 3/31/2010                               |
| 05953YAA9            | 1,257  | 1,220                   | 38   | 1,220  | 544        | 3/31/2010                               |
| 07384MZ54            | 250  | 213                     | 34   | 216  | 216        | 3/31/2010                               |
| 07386HRW3            | 143  | 131                     | 11   | 131  | 55         | 3/31/2010                               |
| 07386HXZ9            | 3,596  | 3,507                   | 89   | 3,507  | 2,722      | 3/31/2010                               |
| 07386HYA3            | 1,013  | 791                     | 120  | 894  | 894        | 3/31/2010                               |
| 12628KAD4            | 127  | 121                     | 5  | 121  | 78         | 3/31/2010                               |
| 12629EAD7            | 216  | 215                     | 1  | 215  | 130        | 3/31/2010                               |
| 12638PAE9            | 1,643  | 1,618                   | 25   | 1,618  | 1,083      | 3/31/2010                               |
| 126670LF3            | 803  | 625                     | 178  | 625  | 503        | 3/31/2010                               |
| 126673HC9            | 306  | 214                     | 92   | 214  | 151        | 3/31/2010                               |
| 12667G7X5            | 4,586  | 4,522                   | 65   | 4,522  | 2,950      | 3/31/2010                               |
| 12667GPU1            | 2,343  | 2,331                   | 12   | 2,331  | 1,567      | 3/31/2010                               |
| 126686AB0            | 2,478  | 2,228                   | 250  | 2,228  | 1,933      | 3/31/2010                               |
| 12668AQ65            | 4,662  | 4,361                   | 301  | 4,361  | 2,689      | 3/31/2010                               |
| 12668AYL3            | 18,157   | 16,948                  | 1,208  | 16,948   | 10,176     | 3/31/2010                               |
| 12668AYU3            | 9,145  | 8,563                   | 581  | 8,563  | 4,980      | 3/31/2010                               |
| 12668BFB4            | 5,861  | 5,064                   | 797  | 5,064  | 4,288      | 3/31/2010                               |
| 12668BKG7            | 11,378   | 11,235                  | 144  | 11,235   | 6,634      | 3/31/2010                               |
| 12668WAF4            | 250  | 229                     | 21   | 229  | 176        | 3/31/2010                               |
| 126694FW3            | 3,198  | 3,168                   | 30   | 3,168  | 2,350      | 3/31/2010                               |
| 126694UJ5            | 2,084  | 2,050                   | 35   | 2,050  | 1,472      | 3/31/2010                               |
| 149837AA4            | 3,995  | 3,438                   | 557  | 3,438  | 2,409      | 3/31/2010                               |
| 170256AB7            | 254  | 171                     | 83   | 171  | 125        | 3/31/2010                               |
| 17307GT65            | 1,304  | 828                     | 50   | 1,255  | 1,255      | 3/31/2010                               |
| 17309BAB3            | 704  | 677                     | 27   | 677  | 487        | 3/31/2010                               |
| 17309YAF4            | 5,036  | 5,018                   | 18   | 5,018  | 2,659      | 3/31/2010                               |
| 18976GAV8            | 10,928   | 9,930                   | 998  | 9,930  | 5,806      | 3/31/2010                               |
| 225470A86            | 8,834  | 8,639                   | 195  | 8,639  | 5,497      | 3/31/2010                               |
| 225470E74            | 376  | 272                     | 105  | 272  | 202        | 3/31/2010                               |
| 2254W0MD4            | 9,165  | 8,841                   | 324  | 8,841  | 6,547      | 3/31/2010                               |
| 251510LM3            | 2,889  | 2,871                   | 18   | 2,871  | 2,079      | 3/31/2010                               |
| 251511AC5            | 4,379  | 4,256                   | 123  | 4,256  | 2,777      | 3/31/2010                               |
| 251511AE1            | 1,742  | 1,467                   | 275  | 1,467  | 873        | 3/31/2010                               |
| 251511AF8            | 5,544  | 5,400                   | 144  | 5,400  | 3,231      | 3/31/2010                               |
| 251513AV9            | 755  | 748                     | 6  | 748  | 514        | 3/31/2010                               |
| 251513BC0            | 3,523  | 3,437                   | 86   | 3,437  | 2,178      | 3/31/2010                               |
| 32028GAG0            | 7,392  | 7,179                   | 212  | 7,179  | 27         | 3/31/2010                               |
| 32029HAB8            | 6,249  | 3,292                   | 2,956  | 3,292  | 2,294      | 3/31/2010                               |
| 32051GMV4            | 545  | 426                     | 118  | 426  | 423        | 3/31/2010                               |
| 32051GXC4            | 4,347  | 4,088                   | 259  | 4,088  | 3,406      | 3/31/2010                               |
| 32051GZR9            | 6,537  | 6,371                   | 167  | 6,371  | 4,252      | 3/31/2010                               |
| 36185MDU3            | 37   | 14                      | 14   | 23   | 23         | 3/31/2010                               |
| 3622E8AF2            | 7,231  | 6,942                   | 289  | 6,942  | 3,890      | 3/31/2010                               |
| 3622ELAG1            | 4,325  | 4,149                   | 177  | 4,149  | 2,391      | 3/31/2010                               |
| 3622EUAB2            | 638  | 615                     | 23   | 615  | 397        | 3/31/2010                               |
| 3622EUAC0            | 3,405  | 3,290                   | 116  | 3,290  | 2,023      | 3/31/2010                               |
| 3622EUAF3            | 2,672  | 2,588                   | 84   | 2,588  | 1,634      | 3/31/2010                               |
| 362375AF4            | 22,782   | 22,081                  | 701  | 22,081   | 15,995     | 3/31/2010                               |
| 36244SAF5            | 1,718  | 1,659                   | 59   | 1,659  | 1,070      | 3/31/2010                               |
| 38011AAC8            | 2,349  | 2,188                   | 161  | 2,188  | 1,072      | 3/31/2010                               |
| 45660LGQ6            | 2,780  | 2,740                   | 40   | 2,740  | 1,724      | 3/31/2010                               |
| 45660LS75            | 14,066   | 13,645                  | 421  | 13,645   | 9,638      | 3/31/2010                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 45660LSY6            | 4,678  | 4,637                   | 41   | 4,637  | 3,610      | 3/31/2010                               |
| 45661HAR8            | 9,818  | 9,219                   | 598  | 9,219  | 8,123      | 3/31/2010                               |
| 46412RAA3            | 12,289   | 11,285                  | 1,004  | 11,285   | 3,907      | 3/31/2010                               |
| 46628SAK9            | 186  | 103                     | 83   | 103  | 91         | 3/31/2010                               |
| 46629BAF6            | 4,489  | 4,316                   | 173  | 4,316  | 3,636      | 3/31/2010                               |
| 55265K4Z9            | 133  | 109                     | 24   | 109  | 9          | 3/31/2010                               |
| 57643MGJ7            | 121  | 120                     | 2  | 120  | 90         | 3/31/2010                               |
| 57643MGK4            | 120  | 106                     | 14   | 106  | 83         | 3/31/2010                               |
| 59020UXH3            | 2,058  | 2,019                   | 39   | 2,019  | 1,566      | 3/31/2010                               |
| 61748HFC0            | 810  | 740                     | 70   | 740  | 642        | 3/31/2010                               |
| 61748HYC9            | 2,253  | 2,232                   | 21   | 2,232  | 622        | 3/31/2010                               |
| 61749EAD9            | 1,066  | 1,040                   | 26   | 1,040  | 685        | 3/31/2010                               |
| 61749EAE7            | 427  | 418                     | 9  | 418  | 322        | 3/31/2010                               |
| 61749EAH0            | 3,285  | 3,208                   | 78   | 3,208  | 2,004      | 3/31/2010                               |
| 61750YAE9            | 3,435  | 3,348                   | 87   | 3,348  | 2,443      | 3/31/2010                               |
| 61750YAJ8            | 3,832  | 3,733                   | 99   | 3,733  | 2,880      | 3/31/2010                               |
| 61752RAH5            | 967  | 936                     | 31   | 936  | 519        | 3/31/2010                               |
| 61752RAJ1            | 1,444  | 1,399                   | 46   | 1,399  | 786        | 3/31/2010                               |
| 61752RAM4            | 5,833  | 5,737                   | 96   | 5,737  | 3,774      | 3/31/2010                               |
| 65535VDM7            | 1,133  | 1,089                   | 43   | 1,089  | 1,068      | 3/31/2010                               |
| 65536VAC1            | 234  | 228                     | 5  | 228  | 155        | 3/31/2010                               |
| 655374AA4            | 2,352  | 2,242                   | 110  | 2,242  | 614        | 3/31/2010                               |
| 68389BAD5            | 6,322  | 4,777                   | 1,545  | 4,777  | 38         | 3/31/2010                               |
| 68402VAE2            | 495  | 441                     | 54   | 441  | 181        | 3/31/2010                               |
| 76110HS34            | 2,772  | 2,765                   | 7  | 2,765  | 2,176      | 3/31/2010                               |
| 76110WMW3            | 370  | 361                     | 9  | 361  | 181        | 3/31/2010                               |
| 76114QAC9            | 15,607   | 14,393                  | 1,214  | 14,393   | 6,250      | 3/31/2010                               |
| 785813AA4            | 1,248  | 588                     | 660  | 588  | 202        | 3/31/2010                               |
| 81377CAD0            | 20   | 13                      | 7  | 13   | 6          | 3/31/2010                               |
| 863579G85            | 453  | 388                     | 65   | 388  | 338        | 3/31/2010                               |
| 863579KZ0            | 1,272  | 1,090                   | 182  | 1,090  | 757        | 3/31/2010                               |
| 863579U89            | 479  | 305                     | 31   | 448  | 448        | 3/31/2010                               |
| 881561P24            | 2,531  | 2,449                   | 83   | 2,449  | 455        | 3/31/2010                               |
| 93934FLB6            | 9,211  | 8,974                   | 237  | 8,974  | 4,821      | 3/31/2010                               |
| 93935WAC8            | 9,741  | 7,298                   | 1,199  | 8,542  | 8,542      | 3/31/2010                               |
| 93935YAA8            | 3,229  | 3,164                   | 65   | 3,164  | 1,589      | 3/31/2010                               |
| 941034AB6            | 2,239  | 35                      | 148  | 2,091  | 2,091      | 3/31/2010                               |
| 94983JAK8            | 115  | 50                      | 64   | 50   | 12         | 3/31/2010                               |
| BCCON9A95            | 6,063  | 5,848                   | 215  | 5,848  | 1,096      | 3/31/2010                               |
| 46628SAL7            | 46   | 25                      | 10   | 36   | 36         | 12/31/2009                              |
| 00442KAB7            | 11,541   | 10,692                  | 849  | 10,692   | 4,517      | 12/31/2009                              |
| 00761HBH3            | 4,000  | 3,387                   | 613  | 3,387  | 2,320      | 12/31/2009                              |
| 02147GAC8            | 11,838   | 11,098                  | 740  | 11,098   | 6,065      | 12/31/2009                              |
| 02660TAX1            | 1,237  | 1,067                   | 170  | 1,067  | 926        | 12/31/2009                              |
| 02660TGR8            | 2,419  | 2,418                   | 1  | 2,418  | 774        | 12/31/2009                              |
| 058933BH4            | 461  | 21                      | 440  | 21   | 11         | 12/31/2009                              |
| 05946XHV8            | 1,039  | 950                     | 89   | 950  | 860        | 12/31/2009                              |
| 05950GBR3            | 1,978  | 101                     | 1,480  | 499  | 499        | 12/31/2009                              |
| 05951KAZ6            | 430  | 423                     | 8  | 423  | 284        | 12/31/2009                              |
| 05951KBA0            | 10,234   | 10,192                  | 42   | 10,192   | 6,257      | 12/31/2009                              |
| 05953YAA9            | 108  | 107                     | 1  | 107  | 46         | 12/31/2009                              |
| 07386HRW3            | 173  | 147                     | 26   | 147  | 58         | 12/31/2009                              |
| 07386HXZ9            | 4,164  | 3,665                   | 499  | 3,665  | 2,675      | 12/31/2009                              |
| 07386HYA3            | 1,057  | 929                     | 24   | 1,033  | 1,033      | 12/31/2009                              |
| 12628KAD4            | 1,025  | 127                     | 898  | 127  | 74         | 12/31/2009                              |
| 12629EAD7            | 221  | 216                     | 5  | 216  | 124        | 12/31/2009                              |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 12638PAE9            | 1,716  | 1,643                   | 73   | 1,643  | 1,087      | 12/31/2009                              |
| 12667G7X5            | 4,602  | 4,586                   | 15   | 4,586  | 2,466      | 12/31/2009                              |
| 12667GPU1            | 2,376  | 2,343                   | 33   | 2,343  | 1,521      | 12/31/2009                              |
| 126685DX1            | 847  | 819                     | 28   | 819  | 427        | 12/31/2009                              |
| 126686AB0            | 2,889  | 2,521                   | 368  | 2,521  | 1,826      | 12/31/2009                              |
| 12668BFB4            | 7,434  | 5,861                   | 1,572  | 5,861  | 4,183      | 12/31/2009                              |
| 12668BKG7            | 11,630   | 11,378                  | 252  | 11,378   | 6,448      | 12/31/2009                              |
| 126694FW3            | 3,578  | 3,310                   | 268  | 3,310  | 2,323      | 12/31/2009                              |
| 126694UJ5            | 2,580  | 2,165                   | 416  | 2,165  | 1,484      | 12/31/2009                              |
| 15132EKT4            | 452  | 451                     | 1  | 451  | 256        | 12/31/2009                              |
| 15132ELG1            | 470  | 470                     | 0  | 470  | 194        | 12/31/2009                              |
| 17307GPS1            | 1,763  | 1,582                   | 181  | 1,582  | 1,038      | 12/31/2009                              |
| 17307GT65            | 2,011  | 1,152                   | 665  | 1,345  | 1,345      | 12/31/2009                              |
| 17309BAB3            | 814  | 792                     | 22   | 792  | 521        | 12/31/2009                              |
| 17309YAF4            | 5,197  | 5,101                   | 96   | 5,101  | 2,694      | 12/31/2009                              |
| 225470A86            | 10,318   | 9,176                   | 1,142  | 9,176  | 5,724      | 12/31/2009                              |
| 225470E74            | 536  | 391                     | 145  | 391  | 288        | 12/31/2009                              |
| 2254W0MD4            | 10,040   | 9,375                   | 665  | 9,375  | 6,730      | 12/31/2009                              |
| 23242MAA9            | 1,063  | 909                     | 154  | 909  | 870        | 12/31/2009                              |
| 23242MAD3            | 375  | 362                     | 14   | 362  | 240        | 12/31/2009                              |
| 251510GQ0            | 1,619  | 1,308                   | 311  | 1,308  | 802        | 12/31/2009                              |
| 251510LM3            | 3,409  | 3,052                   | 357  | 3,052  | 2,173      | 12/31/2009                              |
| 251511AC5            | 4,750  | 4,379                   | 371  | 4,379  | 2,306      | 12/31/2009                              |
| 251511AF8            | 5,769  | 5,595                   | 174  | 5,595  | 3,256      | 12/31/2009                              |
| 251513AV9            | 802  | 778                     | 25   | 778  | 428        | 12/31/2009                              |
| 251513BC0            | 3,667  | 3,571                   | 97   | 3,571  | 2,171      | 12/31/2009                              |
| 32028GAG0            | 7,484  | 7,392                   | 92   | 7,392  | 30         | 12/31/2009                              |
| 32051GMV4            | 594  | 565                     | 29   | 565  | 372        | 12/31/2009                              |
| 32051GXC4            | 4,851  | 4,357                   | 494  | 4,357  | 3,694      | 12/31/2009                              |
| 32051GZ73            | 5,507  | 5,505                   | 2  | 5,505  | 2,380      | 12/31/2009                              |
| 32051GZR9            | 6,613  | 6,537                   | 76   | 6,537  | 4,003      | 12/31/2009                              |
| 36185N6M7            | 2,164  | 1,962                   | 202  | 1,962  | 1,755      | 12/31/2009                              |
| 3622E8AF2            | 7,913  | 7,339                   | 574  | 7,339  | 3,924      | 12/31/2009                              |
| 3622ELAG1            | 4,560  | 4,376                   | 184  | 4,376  | 2,532      | 12/31/2009                              |
| 3622EUAB2            | 643  | 638                     | 5  | 638  | 393        | 12/31/2009                              |
| 3622EUAC0            | 3,440  | 3,405                   | 35   | 3,405  | 2,002      | 12/31/2009                              |
| 3622EUAF3            | 2,696  | 2,678                   | 17   | 2,678  | 1,619      | 12/31/2009                              |
| 362375AF4            | 23,759   | 22,985                  | 774  | 22,985   | 16,323     | 12/31/2009                              |
| 36244SAF5            | 1,781  | 1,742                   | 39   | 1,742  | 1,076      | 12/31/2009                              |
| 38011AAC8            | 2,587  | 2,395                   | 193  | 2,395  | 1,165      | 12/31/2009                              |
| 456606MZ2            | 1,048  | 969                     | 78   | 969  | 175        | 12/31/2009                              |
| 45660LDD8            | 178  | 177                     | 1  | 177  | 163        | 12/31/2009                              |
| 45660LGQ6            | 3,328  | 2,920                   | 408  | 2,920  | 1,765      | 12/31/2009                              |
| 45660LS75            | 16,921   | 14,066                  | 2,856  | 14,066   | 9,198      | 12/31/2009                              |
| 45660LSY6            | 4,703  | 4,678                   | 25   | 4,678  | 3,525      | 12/31/2009                              |
| 45661HAR8            | 13,737   | 9,818                   | 3,919  | 9,818  | 7,958      | 12/31/2009                              |
| 456673AB8            | 3,720  | 2,765                   | 955  | 2,765  | 1,306      | 12/31/2009                              |
| 46628SAK9            | 203  | 146                     | 17   | 186  | 186        | 12/31/2009                              |
| 46629BAF6            | 4,692  | 4,511                   | 181  | 4,511  | 3,601      | 12/31/2009                              |
| 576433XW1            | 1,881  | 1,691                   | 190  | 1,691  | 1,135      | 12/31/2009                              |
| 59020UXH3            | 2,404  | 2,136                   | 269  | 2,136  | 1,509      | 12/31/2009                              |
| 61748HFC0            | 827  | 814                     | 13   | 814  | 622        | 12/31/2009                              |
| 61748HYC9            | 2,331  | 2,319                   | 13   | 2,319  | 390        | 12/31/2009                              |
| 61749EAD9            | 1,099  | 1,066                   | 33   | 1,066  | 659        | 12/31/2009                              |
| 61749EAE7            | 442  | 427                     | 14   | 427  | 279        | 12/31/2009                              |
| 61749EAH0            | 3,418  | 3,324                   | 94   | 3,324  | 2,000      | 12/31/2009                              |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 61750YAE9            | 3,545  | 3,435                   | 110  | 3,435  | 1,434      | 12/31/2009                              |
| 61750YAJ8            | 4,001  | 3,878                   | 123  | 3,878  | 2,042      | 12/31/2009                              |
| 61752RAH5            | 1,000  | 967                     | 33   | 967  | 553        | 12/31/2009                              |
| 61752RAJ1            | 1,500  | 1,444                   | 56   | 1,444  | 820        | 12/31/2009                              |
| 65535VDM7            | 1,399  | 1,265                   | 134  | 1,265  | 1,158      | 12/31/2009                              |
| 65536VAC1            | 238  | 234                     | 4  | 234  | 154        | 12/31/2009                              |
| 68389BAD5            | 6,441  | 6,322                   | 119  | 6,322  | 35         | 12/31/2009                              |
| 69336RDS6            | 204  | 89                      | 114  | 89   | 63         | 12/31/2009                              |
| 73316PJR2            | 507  | 505                     | 3  | 505  | 434        | 12/31/2009                              |
| 76110HS34            | 6,410  | 5,453                   | 957  | 5,453  | 4,068      | 12/31/2009                              |
| 76110HT82            | 1,066  | 937                     | 129  | 937  | 738        | 12/31/2009                              |
| 81377CAD0            | 95   | 24                      | 71   | 24   | 9          | 12/31/2009                              |
| 863579G85            | 505  | 462                     | 43   | 462  | 353        | 12/31/2009                              |
| 863579U89            | 1,008  | 489                     | 519  | 489  | 457        | 12/31/2009                              |
| 86362TAF4            | 1,864  | 1,567                   | 297  | 1,567  | 871        | 12/31/2009                              |
| 87222PAD5            | 2,047  | 1,989                   | 58   | 1,989  | 1,715      | 12/31/2009                              |
| 92925CDU3            | 76   | 38                      | 17   | 59   | 59         | 12/31/2009                              |
| 93363NAB1            | 4,934  | 4,155                   | 779  | 4,155  | 3,655      | 12/31/2009                              |
| 93934FKQ4            | 5,565  | 5,024                   | 541  | 5,024  | 2,038      | 12/31/2009                              |
| 93934FLB6            | 9,713  | 9,055                   | 659  | 9,055  | 4,627      | 12/31/2009                              |
| 93935YAA8            | 3,970  | 3,636                   | 334  | 3,636  | 1,917      | 12/31/2009                              |
| 941034AB6            | 2,705  | 2,239                   | 466  | 2,239  | 1,848      | 12/31/2009                              |
| 94984AAR1            | 16,971   | 16,767                  | 204  | 16,767   | 8,950      | 12/31/2009                              |
| 46628SAL7            | 60   | 46                      | 14   | 46   | 45         | 9/30/2009                               |
| 058933BH4            | 976  | 462                     | 514  | 462  | 16         | 9/30/2009                               |
| 05946XHV8            | 1,138  | 1,081                   | 57   | 1,081  | 843        | 9/30/2009                               |
| 059515AE6            | 226  | 224                     | 2  | 224  | 83         | 9/30/2009                               |
| 05951FAK0            | 437  | 433                     | 4  | 433  | 142        | 9/30/2009                               |
| 05951KAZ6            | 442  | 430                     | 12   | 430  | 292        | 9/30/2009                               |
| 05951KBA0            | 10,487   | 10,234                  | 254  | 10,234   | 5,887      | 9/30/2009                               |
| 07386HXZ9            | 4,490  | 4,266                   | 224  | 4,266  | 2,915      | 9/30/2009                               |
| 07386HYA3            | 1,999  | 1,276                   | 723  | 1,276  | 1,276      | 9/30/2009                               |
| 12489WNN0            | 40   | 39                      | 1  | 39   | 35         | 9/30/2009                               |
| 12628KAD4            | 2,121  | 1,234                   | 887  | 1,234  | 1,234      | 9/30/2009                               |
| 12628KAF9            | 2,242  | 2,198                   | 45   | 2,198  | 1,031      | 9/30/2009                               |
| 12629EAD7            | 226  | 221                     | 5  | 221  | 125        | 9/30/2009                               |
| 12638PAE9            | 1,743  | 1,716                   | 26   | 1,716  | 1,087      | 9/30/2009                               |
| 126670LF3            | 869  | 856                     | 13   | 856  | 602        | 9/30/2009                               |
| 12667G7X5            | 4,640  | 4,602                   | 39   | 4,602  | 2,522      | 9/30/2009                               |
| 12667GPU1            | 2,377  | 2,376                   | 1  | 2,376  | 1,380      | 9/30/2009                               |
| 126685DX1            | 1,027  | 883                     | 144  | 883  | 408        | 9/30/2009                               |
| 12668BFB4            | 9,790  | 7,434                   | 2,356  | 7,434  | 4,183      | 9/30/2009                               |
| 12668BKG7            | 12,174   | 11,630                  | 544  | 11,630   | 6,303      | 9/30/2009                               |
| 126694FW3            | 4,152  | 3,701                   | 452  | 3,701  | 2,689      | 9/30/2009                               |
| 126694UJ5            | 2,672  | 2,590                   | 82   | 2,590  | 1,995      | 9/30/2009                               |
| 170256AB7            | 336  | 299                     | 37   | 299  | 299        | 9/30/2009                               |
| 17307GPS1            | 1,887  | 1,775                   | 112  | 1,775  | 1,098      | 9/30/2009                               |
| 17307GT65            | 2,994  | 2,074                   | 921  | 2,074  | 1,357      | 9/30/2009                               |
| 17309BAB3            | 890  | 862                     | 28   | 862  | 581        | 9/30/2009                               |
| 17311FAH7            | 5,438  | 5,340                   | 98   | 5,340  | 3,004      | 9/30/2009                               |
| 225470A86            | 11,937   | 10,563                  | 1,374  | 10,563   | 5,756      | 9/30/2009                               |
| 225470E74            | 606  | 549                     | 56   | 549  | 447        | 9/30/2009                               |
| 2254W0MD4            | 10,998   | 10,353                  | 646  | 10,353   | 7,244      | 9/30/2009                               |
| 23242MAD3            | 465  | 397                     | 68   | 397  | 249        | 9/30/2009                               |
| 251510GQ0            | 1,751  | 1,633                   | 118  | 1,633  | 932        | 9/30/2009                               |
| 251511AF8            | 6,011  | 5,849                   | 161  | 5,849  | 2,824      | 9/30/2009                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 251513AV9            | 825  | 802                     | 23   | 802  | 431        | 9/30/2009                               |
| 251513BC0            | 3,786  | 3,710                   | 75   | 3,710  | 2,209      | 9/30/2009                               |
| 32051GZR9            | 6,631  | 6,613                   | 18   | 6,613  | 3,916      | 9/30/2009                               |
| 36185MDU3            | 112  | 46                      | 66   | 46   | 46         | 9/30/2009                               |
| 3622ELAG1            | 4,707  | 4,590                   | 117  | 4,590  | 2,531      | 9/30/2009                               |
| 3622EUAB2            | 657  | 643                     | 14   | 643  | 462        | 9/30/2009                               |
| 3622EUAC0            | 3,516  | 3,440                   | 76   | 3,440  | 2,027      | 9/30/2009                               |
| 3622EUAF3            | 2,749  | 2,696                   | 53   | 2,696  | 1,493      | 9/30/2009                               |
| 362334MD3            | 716  | 710                     | 5  | 710  | 595        | 9/30/2009                               |
| 362375AF4            | 24,940   | 24,074                  | 867  | 24,074   | 17,248     | 9/30/2009                               |
| 36244SAF5            | 1,850  | 1,805                   | 46   | 1,805  | 1,117      | 9/30/2009                               |
| 393505XH0            | 714  | 699                     | 14   | 699  | 686        | 9/30/2009                               |
| 45660LDD8            | 199  | 196                     | 4  | 196  | 188        | 9/30/2009                               |
| 45660LGQ6            | 3,511  | 3,469                   | 43   | 3,469  | 1,872      | 9/30/2009                               |
| 45660LS75            | 18,196   | 16,921                  | 1,275  | 16,921   | 9,246      | 9/30/2009                               |
| 45660LSY6            | 4,766  | 4,703                   | 62   | 4,703  | 3,612      | 9/30/2009                               |
| 45661HAR8            | 14,037   | 13,737                  | 300  | 13,737   | 8,340      | 9/30/2009                               |
| 456673AB8            | 4,440  | 3,852                   | 589  | 3,852  | 1,496      | 9/30/2009                               |
| 46628SAK9            | 228  | 203                     | 24   | 203  | 193        | 9/30/2009                               |
| 46629BAF6            | 4,997  | 4,701                   | 297  | 4,701  | 2,976      | 9/30/2009                               |
| 46629BAG4            | 188  | 126                     | 62   | 126  | 126        | 9/30/2009                               |
| 576433XW1            | 2,092  | 2,000                   | 92   | 2,000  | 1,281      | 9/30/2009                               |
| 57644DAR4            | 2,581  | 2,086                   | 495  | 2,086  | 576        | 9/30/2009                               |
| 59020UXH3            | 2,518  | 2,470                   | 48   | 2,470  | 1,581      | 9/30/2009                               |
| 61749EAD9            | 1,125  | 1,099                   | 26   | 1,099  | 686        | 9/30/2009                               |
| 61749EAE7            | 452  | 442                     | 10   | 442  | 263        | 9/30/2009                               |
| 61749EAH0            | 3,750  | 3,465                   | 285  | 3,465  | 2,086      | 9/30/2009                               |
| 61750YAE9            | 3,750  | 3,545                   | 205  | 3,545  | 1,570      | 9/30/2009                               |
| 61750YAJ8            | 4,250  | 4,034                   | 216  | 4,034  | 2,095      | 9/30/2009                               |
| 61752RAM4            | 5,933  | 5,849                   | 83   | 5,849  | 3,666      | 9/30/2009                               |
| 65535VDM7            | 1,504  | 1,407                   | 97   | 1,407  | 1,098      | 9/30/2009                               |
| 65536VAC1            | 243  | 238                     | 5  | 238  | 120        | 9/30/2009                               |
| 69121PCK7            | 4,998  | 4,530                   | 468  | 4,530  | 2,028      | 9/30/2009                               |
| 73316PJR2            | 519  | 514                     | 5  | 514  | 405        | 9/30/2009                               |
| 76110HS34            | 7,457  | 6,785                   | 672  | 6,785  | 4,653      | 9/30/2009                               |
| 76110HT82            | 1,431  | 1,262                   | 168  | 1,262  | 937        | 9/30/2009                               |
| 81377CAD0            | 2,677  | 95                      | 2,583  | 95   | 13         | 9/30/2009                               |
| 863579G85            | 593  | 517                     | 76   | 517  | 506        | 9/30/2009                               |
| 863579U89            | 1,921  | 1,051                   | 870  | 1,051  | 484        | 9/30/2009                               |
| 86362TAF4            | 2,013  | 1,864                   | 149  | 1,864  | 925        | 9/30/2009                               |
| 87222PAD5            | 2,497  | 2,047                   | 450  | 2,047  | 1,778      | 9/30/2009                               |
| 92925CDU3            | 490  | 76                      | 414  | 76   | 63         | 9/30/2009                               |
| 93363NAB1            | 5,011  | 4,934                   | 77   | 4,934  | 3,251      | 9/30/2009                               |
| 93934FKQ4            | 6,089  | 5,470                   | 619  | 5,470  | 2,058      | 9/30/2009                               |
| 94983JAK8            | 353  | 115                     | 238  | 115  | 25         | 9/30/2009                               |
| 94984AAR1            | 17,662   | 16,971                  | 692  | 16,971   | 9,232      | 9/30/2009                               |
| 000112AA0            | 9,588  | 4,948                   | 4,640  | 4,948  | 5,039      | 7/31/2009                               |
| 000112AB8            | 486  | 241                     | 245  | 241  | 245        | 7/31/2009                               |
| 46628SAL7            | 1,200  | 57                      | 1,143  | 57   | 58         | 7/31/2009                               |
| 02660TAX1            | 1,377  | 1,320                   | 57   | 1,320  | 671        | 7/31/2009                               |
| 04271AAE1            | 7,000  | 2,997                   | 4,003  | 2,997  | 3,430      | 7/31/2009                               |
| 058933BH4            | 978  | 976                     | 2  | 976  | 16         | 7/31/2009                               |
| 059515AE6            | 250  | 226                     | 24   | 226  | 79         | 7/31/2009                               |
| 05951FAK0            | 500  | 437                     | 63   | 437  | 138        | 7/31/2009                               |
| 05951KAZ6            | 499  | 442                     | 57   | 442  | 291        | 7/31/2009                               |
| 05951KBA0            | 12,116   | 10,487                  | 1,629  | 10,487   | 5,090      | 7/31/2009                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 07384MZ54            | 943  | 282                     | 661  | 282  | 234        | 7/31/2009                               |
| 07386HRW3            | 290  | 193                     | 97   | 193  | 66         | 7/31/2009                               |
| 07386HYA3            | 5,770  | 1,851                   | 3,919  | 1,851  | 1,851      | 7/31/2009                               |
| 12628KAF9            | 2,500  | 2,242                   | 258  | 2,242  | 842        | 7/31/2009                               |
| 12629EAD7            | 250  | 226                     | 24   | 226  | 118        | 7/31/2009                               |
| 12638PAE9            | 1,900  | 1,743                   | 157  | 1,743  | 940        | 7/31/2009                               |
| 126670LF3            | 2,314  | 872                     | 1,442  | 872  | 459        | 7/31/2009                               |
| 126685DX1            | 1,493  | 1,041                   | 452  | 1,041  | 358        | 7/31/2009                               |
| 126686AB0            | 7,677  | 3,082                   | 4,595  | 3,082  | 1,368      | 7/31/2009                               |
| 15132EKT4            | 472  | 467                     | 5  | 467  | 303        | 7/31/2009                               |
| 170256AB7            | 1,551  | 315                     | 1,236  | 315  | 315        | 7/31/2009                               |
| 17307GPS1            | 2,208  | 1,947                   | 260  | 1,947  | 1,118      | 7/31/2009                               |
| 17307GT65            | 7,119  | 3,040                   | 4,079  | 3,040  | 1,719      | 7/31/2009                               |
| 17309BAB3            | 1,000  | 925                     | 75   | 925  | 599        | 7/31/2009                               |
| 17311FAH7            | 6,000  | 5,438                   | 562  | 5,438  | 2,932      | 7/31/2009                               |
| 20401@AA9            | 6  | 0                       | 6  | 0  | 0          | 7/31/2009                               |
| 225470E74            | 3,277  | 620                     | 2,657  | 620  | 613        | 7/31/2009                               |
| 23242MAD3            | 995  | 473                     | 522  | 473  | 207        | 7/31/2009                               |
| 23335NAF4            | 5,185  | 0                       | 5,185  | 0  | 0          | 7/31/2009                               |
| 251510GQ0            | 4,043  | 1,767                   | 2,277  | 1,767  | 684        | 7/31/2009                               |
| 251513AV9            | 1,000  | 825                     | 175  | 825  | 406        | 7/31/2009                               |
| 251513BC0            | 4,000  | 3,786                   | 214  | 3,786  | 2,156      | 7/31/2009                               |
| 294751DY5            | 1,472  | 1,366                   | 106  | 1,366  | 192        | 7/31/2009                               |
| 31364HED5            | 17   | 1                       | 16   | 1  | 1          | 7/31/2009                               |
| 32051GMV4            | 1,094  | 620                     | 474  | 620  | 433        | 7/31/2009                               |
| 32051GXC4            | 6,907  | 5,299                   | 1,608  | 5,299  | 3,331      | 7/31/2009                               |
| 36185MDU3            | 493  | 103                     | 390  | 103  | 74         | 7/31/2009                               |
| 36185N6M7            | 2,396  | 2,279                   | 118  | 2,279  | 1,854      | 7/31/2009                               |
| 3622ELAG1            | 4,871  | 4,707                   | 164  | 4,707  | 2,453      | 7/31/2009                               |
| 3622EUAB2            | 750  | 657                     | 93   | 657  | 413        | 7/31/2009                               |
| 3622EUAC0            | 4,000  | 3,516                   | 484  | 3,516  | 1,830      | 7/31/2009                               |
| 3622EUAF3            | 3,000  | 2,749                   | 251  | 2,749  | 1,420      | 7/31/2009                               |
| 362375AF4            | 27,000   | 25,185                  | 1,815  | 25,185   | 17,511     | 7/31/2009                               |
| 36244SAF5            | 2,000  | 1,854                   | 146  | 1,854  | 795        | 7/31/2009                               |
| 43709KAA7            | 4,876  | 1,558                   | 3,318  | 1,558  | 1,054      | 7/31/2009                               |
| 456606MZ2            | 1,548  | 1,118                   | 430  | 1,118  | 408        | 7/31/2009                               |
| 456673AB8            | 6,209  | 4,522                   | 1,687  | 4,522  | 4,221      | 7/31/2009                               |
| 46628SAK9            | 2,849  | 228                     | 2,621  | 228  | 222        | 7/31/2009                               |
| 46629BAG4            | 500  | 125                     | 375  | 125  | 125        | 7/31/2009                               |
| 525170AC0            | 754  | 709                     | 45   | 709  | 723        | 7/31/2009                               |
| 55265K4Y2            | 312  | 294                     | 18   | 294  | 86         | 7/31/2009                               |
| 55265K4Z9            | 149  | 140                     | 9  | 140  | 8          | 7/31/2009                               |
| 57643MGJ7            | 134  | 132                     | 3  | 132  | 103        | 7/31/2009                               |
| 57643MGK4            | 135  | 128                     | 7  | 128  | 55         | 7/31/2009                               |
| 57644DAR4            | 4,641  | 2,591                   | 2,050  | 2,591  | 621        | 7/31/2009                               |
| 61748HFC0            | 956  | 880                     | 75   | 880  | 615        | 7/31/2009                               |
| 61748HYC9            | 3,110  | 2,430                   | 680  | 2,430  | 502        | 7/31/2009                               |
| 61749EAD9            | 1,250  | 1,125                   | 125  | 1,125  | 493        | 7/31/2009                               |
| 61749EAE7            | 500  | 452                     | 48   | 452  | 170        | 7/31/2009                               |
| 61751PAA5            | 14,930   | 6,113                   | 8,816  | 6,113  | 3,803      | 7/31/2009                               |
| 61752RAM4            | 6,409  | 5,933                   | 476  | 5,933  | 3,187      | 7/31/2009                               |
| 62948RAC9            | 30,351   | 0                       | 30,351   | 0  | 0          | 7/31/2009                               |
| 65536VAC1            | 300  | 243                     | 57   | 243  | 115        | 7/31/2009                               |
| 655374AA4            | 6,744  | 2,949                   | 3,795  | 2,949  | 1,052      | 7/31/2009                               |
| 69336RDS6            | 223  | 204                     | 19   | 204  | 55         | 7/31/2009                               |
| 81377CAD0            | 5,000  | 2,677                   | 2,323  | 2,677  | 23         | 7/31/2009                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                                   | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|---------------------------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup>                  | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 863579G85                             | 2,365  | 603                     | 1,762  | 603  | 635        | 7/31/2009                               |
| 863579KZ0                             | 3,218  | 1,348                   | 1,870  | 1,348  | 588        | 7/31/2009                               |
| 881561P24                             | 3,345  | 2,663                   | 682  | 2,663  | 546        | 7/31/2009                               |
| 94983JAK8                             | 482  | 353                     | 130  | 353  | 39         | 7/31/2009                               |
| <b>Subtotal –<br/>General Account</b> | <b>XXX</b>   | <b>XXX</b>              | <b>245,353</b>   | <b>XXX</b>   | <b>XXX</b> |   |
| <b>Separate Account</b>               |  |                         |  |  |            |   |
| 059469AF3                             | 6,183  | 6,093                   | 90   | 6,093  | 4,827      | 12/31/2010                              |
| 05951EAE7                             | 3,898  | 3,846                   | 52   | 3,846  | 3,524      | 12/31/2010                              |
| 05953YAA9                             | 5,000  | 4,822                   | 178  | 4,822  | 3,239      | 12/31/2010                              |
| 07389NAC9                             | 2,500  | 2,488                   | 11   | 2,488  | 1,771      | 12/31/2010                              |
| 12628KAF9                             | 4,761  | 4,712                   | 49   | 4,712  | 2,773      | 12/31/2010                              |
| 12628LAJ9                             | 4,488  | 4,285                   | 202  | 4,285  | 2,911      | 12/31/2010                              |
| 12668WAC1                             | 2,295  | 2,272                   | 24   | 2,272  | 1,326      | 12/31/2010                              |
| 12668WAF4                             | 2,241  | 2,220                   | 21   | 2,220  | 1,786      | 12/31/2010                              |
| 170256AK7                             | 5,101  | 5,062                   | 39   | 5,062  | 3,895      | 12/31/2010                              |
| 17309BAB3                             | 2,292  | 2,266                   | 26   | 2,266  | 1,703      | 12/31/2010                              |
| 17309YAF4                             | 2,759  | 2,755                   | 4  | 2,755  | 1,890      | 12/31/2010                              |
| 251510LG6                             | 23   | 16                      | 7  | 16   | 7          | 12/31/2010                              |
| 251511AC5                             | 2,611  | 2,575                   | 36   | 2,575  | 1,910      | 12/31/2010                              |
| 32056JAG9                             | 2,667  | 2,557                   | 110  | 2,557  | 2,418      | 12/31/2010                              |
| 3622E8AC9                             | 1,729  | 1,703                   | 26   | 1,703  | 1,255      | 12/31/2010                              |
| 3622E8AF2                             | 1,589  | 1,563                   | 26   | 1,563  | 978        | 12/31/2010                              |
| 3622ELAG1                             | 4,042  | 4,009                   | 34   | 4,009  | 2,923      | 12/31/2010                              |
| 456673AB8                             | 2,084  | 1,711                   | 373  | 1,711  | 876        | 12/31/2010                              |
| 45669EAE6                             | 2,542  | 2,532                   | 10   | 2,532  | 1,930      | 12/31/2010                              |
| 45669EAM8                             | 3,344  | 3,296                   | 48   | 3,296  | 1,301      | 12/31/2010                              |
| 46628BBB5                             | 980  | 516                     | 464  | 516  | 683        | 12/31/2010                              |
| 46628LAA6                             | 414  | 398                     | 15   | 398  | 379        | 12/31/2010                              |
| 46629CAN7                             | 869  | 583                     | 286  | 583  | 711        | 12/31/2010                              |
| 61749EAD9                             | 1,570  | 1,559                   | 11   | 1,559  | 1,090      | 12/31/2010                              |
| 61749EAH0                             | 1,576  | 1,566                   | 10   | 1,566  | 1,057      | 12/31/2010                              |
| 61751DAE4                             | 420  | 416                     | 5  | 416  | 310        | 12/31/2010                              |
| 73316PDT4                             | 1,306  | 1,275                   | 31   | 1,275  | 309        | 12/31/2010                              |
| 74958XAF1                             | 2,438  | 2,408                   | 30   | 2,408  | 2,178      | 12/31/2010                              |
| 76112BKN9                             | 1,576  | 1,573                   | 2  | 1,573  | 1,503      | 12/31/2010                              |
| 863579B49                             | 2,880  | 2,421                   | 459  | 2,421  | 1,974      | 12/31/2010                              |
| 86361PAK2                             | 979  | 968                     | 11   | 968  | 823        | 12/31/2010                              |
| 87222PAC7                             | 500  | 420                     | 80   | 420  | 314        | 12/31/2010                              |
| 92925GAA1                             | 1,450  | 1,447                   | 3  | 1,447  | 1,409      | 12/31/2010                              |
| 933636AC6                             | 2,723  | 2,706                   | 17   | 2,706  | 2,309      | 12/31/2010                              |
| 93363NAB1                             | 1,182  | 950                     | 232  | 950  | 906        | 12/31/2010                              |
| 93363PAK6                             | 1,657  | 1,348                   | 309  | 1,348  | 1,210      | 12/31/2010                              |
| 94984UAE6                             | 2,373  | 2,277                   | 96   | 2,277  | 1,769      | 12/31/2010                              |
| 059469AF3                             | 6,304  | 6,257                   | 47   | 6,257  | 4,782      | 9/30/2010                               |
| 05951EAA5                             | 970  | 959                     | 11   | 959  | 768        | 9/30/2010                               |
| 05951EAE7                             | 4,006  | 3,898                   | 109  | 3,898  | 3,560      | 9/30/2010                               |
| 07389NAC9                             | 2,842  | 2,526                   | 316  | 2,526  | 1,801      | 9/30/2010                               |
| 12628KAF9                             | 4,963  | 4,901                   | 63   | 4,901  | 2,877      | 9/30/2010                               |
| 12668WAC1                             | 2,500  | 2,295                   | 205  | 2,295  | 1,349      | 9/30/2010                               |
| 12668WAF4                             | 2,262  | 2,255                   | 7  | 2,255  | 1,794      | 9/30/2010                               |
| 14983CAA3                             | 2,938  | 2,633                   | 305  | 2,633  | 1,942      | 9/30/2010                               |
| 170256AK7                             | 5,500  | 5,297                   | 203  | 5,297  | 4,049      | 9/30/2010                               |



**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 17309BAB3            | 2,671  | 2,601                   | 70   | 2,601  | 1,806      | 9/30/2010                               |
| 251510LG6            | 96   | 67                      | 29   | 67   | 44         | 9/30/2010                               |
| 251510LM3            | 3,294  | 3,240                   | 54   | 3,240  | 2,360      | 9/30/2010                               |
| 251511AC5            | 2,651  | 2,611                   | 40   | 2,611  | 2,006      | 9/30/2010                               |
| 32056JAB0            | 747  | 427                     | 320  | 427  | 687        | 9/30/2010                               |
| 3622E8AC9            | 1,967  | 1,777                   | 190  | 1,777  | 1,293      | 9/30/2010                               |
| 3622E8AF2            | 1,661  | 1,628                   | 33   | 1,628  | 1,002      | 9/30/2010                               |
| 3622ELAG1            | 4,161  | 4,088                   | 74   | 4,088  | 3,000      | 9/30/2010                               |
| 36244SAC2            | 4,146  | 4,112                   | 34   | 4,112  | 3,163      | 9/30/2010                               |
| 45660LS75            | 3,667  | 3,634                   | 33   | 3,634  | 2,783      | 9/30/2010                               |
| 45669EAE6            | 2,620  | 2,582                   | 37   | 2,582  | 1,964      | 9/30/2010                               |
| 45669EAM8            | 3,391  | 3,344                   | 47   | 3,344  | 1,312      | 9/30/2010                               |
| 46628BBB5            | 2,143  | 1,029                   | 1,114  | 1,029  | 625        | 9/30/2010                               |
| 59025GAB7            | 818  | 607                     | 211  | 607  | 432        | 9/30/2010                               |
| 61749EAD9            | 1,617  | 1,602                   | 15   | 1,602  | 1,126      | 9/30/2010                               |
| 61749EAH0            | 1,629  | 1,612                   | 17   | 1,612  | 1,091      | 9/30/2010                               |
| 61750YAD1            | 2,665  | 2,590                   | 75   | 2,590  | 2,144      | 9/30/2010                               |
| 61750YAJ8            | 2,554  | 2,479                   | 75   | 2,479  | 2,151      | 9/30/2010                               |
| 61751DAE4            | 437  | 431                     | 6  | 431  | 321        | 9/30/2010                               |
| 68402VAE2            | 4,414  | 4,373                   | 41   | 4,373  | 2,097      | 9/30/2010                               |
| 74958XAF1            | 2,569  | 2,553                   | 16   | 2,553  | 2,155      | 9/30/2010                               |
| 76112BKN9            | 1,672  | 1,653                   | 19   | 1,653  | 1,634      | 9/30/2010                               |
| 863579Y36            | 2,939  | 2,717                   | 221  | 2,717  | 1,999      | 9/30/2010                               |
| 86361PAF3            | 2,382  | 2,378                   | 4  | 2,378  | 1,905      | 9/30/2010                               |
| 92925GAA1            | 4,576  | 3,894                   | 683  | 3,894  | 3,699      | 9/30/2010                               |
| 92925VAM2            | 562  | 548                     | 15   | 548  | 515        | 9/30/2010                               |
| 933636AH5            | 2,348  | 1,824                   | 524  | 1,824  | 1,881      | 9/30/2010                               |
| 059469AF3            | 6,418  | 6,372                   | 46   | 6,372  | 4,625      | 6/30/2010                               |
| 05951EAE7            | 4,021  | 4,006                   | 15   | 4,006  | 3,053      | 6/30/2010                               |
| 12628KAF9            | 5,127  | 5,084                   | 43   | 5,084  | 2,740      | 6/30/2010                               |
| 170256AK7            | 5,991  | 5,862                   | 130  | 5,862  | 4,249      | 6/30/2010                               |
| 251510LG6            | 129  | 93                      | 36   | 93   | 58         | 6/30/2010                               |
| 251510LM3            | 3,704  | 3,690                   | 14   | 3,690  | 2,622      | 6/30/2010                               |
| 251511AC5            | 2,688  | 2,651                   | 37   | 2,651  | 1,803      | 6/30/2010                               |
| 32056JAB0            | 932  | 765                     | 167  | 765  | 817        | 6/30/2010                               |
| 32056JAG9            | 3,534  | 3,071                   | 463  | 3,071  | 2,882      | 6/30/2010                               |
| 3622E8AF2            | 1,712  | 1,691                   | 20   | 1,691  | 969        | 6/30/2010                               |
| 36244SAC2            | 4,248  | 4,223                   | 25   | 4,223  | 3,045      | 6/30/2010                               |
| 456673AB8            | 3,178  | 2,178                   | 1,000  | 2,178  | 1,337      | 6/30/2010                               |
| 45669EAE6            | 2,807  | 2,702                   | 105  | 2,702  | 1,736      | 6/30/2010                               |
| 46629CAN7            | 1,469  | 949                     | 521  | 949  | 1,002      | 6/30/2010                               |
| 59025GAB7            | 858  | 856                     | 2  | 856  | 566        | 6/30/2010                               |
| 61749EAD9            | 1,665  | 1,627                   | 37   | 1,627  | 1,246      | 6/30/2010                               |
| 61749EAH0            | 1,695  | 1,656                   | 39   | 1,656  | 1,132      | 6/30/2010                               |
| 61750YAD1            | 2,676  | 2,665                   | 11   | 2,665  | 1,960      | 6/30/2010                               |
| 61750YAJ8            | 2,596  | 2,577                   | 19   | 2,577  | 2,056      | 6/30/2010                               |
| 61751DAE4            | 447  | 441                     | 6  | 441  | 302        | 6/30/2010                               |
| 64352VGK1            | 1,459  | 1,451                   | 8  | 1,451  | 884        | 6/30/2010                               |
| 76098SRP8            | 2,247  | 2,246                   | 1  | 2,246  | 1,899      | 6/30/2010                               |
| 76112BKN9            | 1,717  | 1,707                   | 10   | 1,707  | 1,529      | 6/30/2010                               |
| 863579Y36            | 3,006  | 2,939                   | 67   | 2,939  | 1,767      | 6/30/2010                               |
| 86361PAK2            | 1,239  | 1,069                   | 170  | 1,069  | 897        | 6/30/2010                               |
| 933636AC6            | 2,986  | 2,946                   | 40   | 2,946  | 2,446      | 6/30/2010                               |
| 933636AH5            | 2,406  | 2,376                   | 31   | 2,376  | 1,883      | 6/30/2010                               |
| 941034AB6            | 1,033  | 15                      | 1,018  | 15   | 927        | 6/30/2010                               |
| 059469AF3            | 6,592  | 6,479                   | 114  | 6,479  | 4,285      | 3/31/2010                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 05951EAA5            | 994  | 980                     | 15   | 980  | 737        | 3/31/2010                               |
| 05951EAE7            | 5,043  | 4,021                   | 1,022  | 4,021  | 3,026      | 3/31/2010                               |
| 05951KAZ6            | 2,113  | 2,048                   | 65   | 2,048  | 1,563      | 3/31/2010                               |
| 12668WAF4            | 2,500  | 2,289                   | 211  | 2,289  | 1,757      | 3/31/2010                               |
| 14983CAA3            | 3,777  | 3,021                   | 756  | 3,021  | 2,041      | 3/31/2010                               |
| 170256AK7            | 6,420  | 6,237                   | 183  | 6,237  | 4,913      | 3/31/2010                               |
| 17309BAB3            | 3,443  | 3,309                   | 133  | 3,309  | 2,382      | 3/31/2010                               |
| 17309YAF4            | 2,878  | 2,867                   | 10   | 2,867  | 1,519      | 3/31/2010                               |
| 251510LG6            | 399  | 270                     | 129  | 270  | 199        | 3/31/2010                               |
| 251510LM3            | 3,817  | 3,793                   | 24   | 3,793  | 2,750      | 3/31/2010                               |
| 251511AC5            | 2,766  | 2,688                   | 78   | 2,688  | 1,754      | 3/31/2010                               |
| 32052MAA9            | 227  | 191                     | 36   | 191  | 191        | 3/31/2010                               |
| 32056JAB0            | 1,273  | 857                     | 294  | 979  | 979        | 3/31/2010                               |
| 3622E8AF2            | 1,805  | 1,735                   | 70   | 1,735  | 972        | 3/31/2010                               |
| 3622ELAG1            | 4,441  | 4,259                   | 182  | 4,259  | 2,450      | 3/31/2010                               |
| 36244SAC2            | 4,404  | 4,248                   | 157  | 4,248  | 3,057      | 3/31/2010                               |
| 38011AAC8            | 4,506  | 4,200                   | 306  | 4,200  | 2,050      | 3/31/2010                               |
| 38012TAE2            | 1,652  | 1,619                   | 33   | 1,619  | 947        | 3/31/2010                               |
| 45660LS75            | 3,871  | 3,747                   | 124  | 3,747  | 2,642      | 3/31/2010                               |
| 45669EAE6            | 2,991  | 2,855                   | 136  | 2,855  | 1,800      | 3/31/2010                               |
| 45669EAM8            | 4,009  | 3,391                   | 618  | 3,391  | 1,416      | 3/31/2010                               |
| 46628LAA6            | 488  | 465                     | 23   | 465  | 424        | 3/31/2010                               |
| 46630KAC0            | 1,282  | 1,238                   | 43   | 1,238  | 789        | 3/31/2010                               |
| 59025GAB7            | 1,560  | 908                     | 652  | 908  | 707        | 3/31/2010                               |
| 61749EAD9            | 1,706  | 1,665                   | 41   | 1,665  | 1,096      | 3/31/2010                               |
| 61749EAH0            | 1,752  | 1,711                   | 41   | 1,711  | 1,069      | 3/31/2010                               |
| 61750YAD1            | 2,746  | 2,676                   | 70   | 2,676  | 1,884      | 3/31/2010                               |
| 61750YAJ8            | 2,705  | 2,635                   | 70   | 2,635  | 2,033      | 3/31/2010                               |
| 61751DAE4            | 458  | 447                     | 11   | 447  | 275        | 3/31/2010                               |
| 64352VGK1            | 1,501  | 1,479                   | 22   | 1,479  | 827        | 3/31/2010                               |
| 68402VAE2            | 4,953  | 4,414                   | 539  | 4,414  | 1,812      | 3/31/2010                               |
| 76112BKN9            | 1,859  | 1,809                   | 51   | 1,809  | 1,529      | 3/31/2010                               |
| 863579Y36            | 3,085  | 3,006                   | 79   | 3,006  | 1,967      | 3/31/2010                               |
| 86361PAF3            | 2,519  | 2,473                   | 46   | 2,473  | 1,704      | 3/31/2010                               |
| 92925GAA1            | 1,787  | 1,687                   | 100  | 1,687  | 1,479      | 3/31/2010                               |
| 92925VAM2            | 725  | 595                     | 130  | 595  | 510        | 3/31/2010                               |
| 933636AH5            | 4,101  | 2,487                   | 1,615  | 2,487  | 1,979      | 3/31/2010                               |
| 941034AB6            | 1,107  | 18                      | 73   | 1,033  | 1,033      | 3/31/2010                               |
| 94984UAE6            | 2,652  | 2,615                   | 37   | 2,615  | 2,001      | 3/31/2010                               |
| 05606QAB5            | 3,466  | 3,466                   | 0  | 3,466  | 2,950      | 12/31/2009                              |
| 059469AF3            | 6,785  | 6,643                   | 143  | 6,643  | 4,140      | 12/31/2009                              |
| 05951EAA5            | 1,132  | 999                     | 133  | 999  | 757        | 12/31/2009                              |
| 05951KAZ6            | 2,151  | 2,113                   | 38   | 2,113  | 1,419      | 12/31/2009                              |
| 126683AC5            | 1,198  | 1,175                   | 23   | 1,175  | 736        | 12/31/2009                              |
| 126685DX1            | 2,272  | 2,198                   | 74   | 2,198  | 1,139      | 12/31/2009                              |
| 170256AK7            | 7,191  | 6,564                   | 627  | 6,564  | 5,003      | 12/31/2009                              |
| 17309BAB3            | 3,981  | 3,876                   | 106  | 3,876  | 2,550      | 12/31/2009                              |
| 17309YAF4            | 2,970  | 2,915                   | 55   | 2,915  | 1,539      | 12/31/2009                              |
| 23242MAC5            | 2,013  | 1,949                   | 64   | 1,949  | 1,433      | 12/31/2009                              |
| 23242MAD3            | 1,877  | 1,809                   | 68   | 1,809  | 1,198      | 12/31/2009                              |
| 251510LM3            | 4,480  | 4,032                   | 447  | 4,032  | 2,875      | 12/31/2009                              |
| 251511AC5            | 3,000  | 2,766                   | 234  | 2,766  | 1,456      | 12/31/2009                              |
| 32052MAA9            | 242  | 227                     | 15   | 227  | 182        | 12/31/2009                              |
| 32056JAB0            | 1,401  | 1,345                   | 56   | 1,345  | 981        | 12/31/2009                              |
| 3622E8AF2            | 1,895  | 1,832                   | 63   | 1,832  | 981        | 12/31/2009                              |
| 3622ELAG1            | 4,683  | 4,492                   | 190  | 4,492  | 2,594      | 12/31/2009                              |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                  | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|----------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup> | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 36244SAC2            | 4,492  | 4,404                   | 88   | 4,404  | 2,666      | 12/31/2009                              |
| 38011AAC8            | 4,958  | 4,595                   | 364  | 4,595  | 2,228      | 12/31/2009                              |
| 38012TAE2            | 1,925  | 1,796                   | 129  | 1,796  | 778        | 12/31/2009                              |
| 45660LS75            | 4,650  | 3,871                   | 780  | 3,871  | 2,521      | 12/31/2009                              |
| 456673AB8            | 4,661  | 3,464                   | 1,197  | 3,464  | 1,636      | 12/31/2009                              |
| 45669EAE6            | 3,336  | 3,168                   | 168  | 3,168  | 1,880      | 12/31/2009                              |
| 46628LAA6            | 568  | 502                     | 66   | 502  | 408        | 12/31/2009                              |
| 46629CAN7            | 2,950  | 1,630                   | 1,320  | 1,630  | 1,193      | 12/31/2009                              |
| 46630KAC0            | 1,387  | 1,282                   | 105  | 1,282  | 773        | 12/31/2009                              |
| 59025GAB7            | 2,309  | 1,621                   | 689  | 1,621  | 1,044      | 12/31/2009                              |
| 61749EAD9            | 1,759  | 1,706                   | 53   | 1,706  | 1,054      | 12/31/2009                              |
| 61749EAH0            | 1,823  | 1,773                   | 50   | 1,773  | 1,067      | 12/31/2009                              |
| 61750YAD1            | 2,837  | 2,746                   | 91   | 2,746  | 1,489      | 12/31/2009                              |
| 61750YAJ8            | 2,824  | 2,737                   | 87   | 2,737  | 1,442      | 12/31/2009                              |
| 61751DAE4            | 466  | 458                     | 8  | 458  | 268        | 12/31/2009                              |
| 64352VGK1            | 1,535  | 1,530                   | 5  | 1,530  | 825        | 12/31/2009                              |
| 74958XAF1            | 3,490  | 3,010                   | 480  | 3,010  | 2,281      | 12/31/2009                              |
| 76112BKN9            | 2,009  | 1,953                   | 56   | 1,953  | 1,594      | 12/31/2009                              |
| 863579Y36            | 4,277  | 3,085                   | 1,192  | 3,085  | 1,692      | 12/31/2009                              |
| 86361PAF3            | 2,751  | 2,643                   | 108  | 2,643  | 1,815      | 12/31/2009                              |
| 86361PAK2            | 1,452  | 1,364                   | 88   | 1,364  | 1,127      | 12/31/2009                              |
| 92925GAA1            | 2,113  | 1,875                   | 238  | 1,875  | 1,530      | 12/31/2009                              |
| 933636AC6            | 3,608  | 3,179                   | 430  | 3,179  | 2,421      | 12/31/2009                              |
| 933636AH5            | 4,812  | 4,170                   | 642  | 4,170  | 1,990      | 12/31/2009                              |
| 941034AB6            | 1,337  | 1,107                   | 230  | 1,107  | 913        | 12/31/2009                              |
| 94984UAE6            | 3,131  | 2,699                   | 432  | 2,699  | 2,049      | 12/31/2009                              |
| 059469AF3            | 6,684  | 6,566                   | 118  | 6,867  | 4,159      | 9/30/2009                               |
| 059515AE6            | 4,523  | 4,473                   | 50   | 4,473  | 1,665      | 9/30/2009                               |
| 05951EAA5            | 1,330  | 1,135                   | 195  | 1,135  | 827        | 9/30/2009                               |
| 05951KAZ6            | 2,209  | 2,151                   | 58   | 2,151  | 1,460      | 9/30/2009                               |
| 12627HAK6            | 4,998  | 4,722                   | 276  | 4,722  | 2,888      | 9/30/2009                               |
| 12628KAF9            | 5,381  | 5,275                   | 107  | 5,275  | 2,473      | 9/30/2009                               |
| 126683AC5            | 1,483  | 1,273                   | 210  | 1,273  | 599        | 9/30/2009                               |
| 126685DX1            | 2,752  | 2,369                   | 383  | 2,369  | 1,089      | 9/30/2009                               |
| 170256AK7            | 7,893  | 7,389                   | 503  | 7,389  | 4,407      | 9/30/2009                               |
| 17309BAB3            | 4,353  | 4,214                   | 139  | 4,214  | 2,843      | 9/30/2009                               |
| 23242MAC5            | 2,450  | 2,129                   | 321  | 2,129  | 1,353      | 9/30/2009                               |
| 23242MAD3            | 2,326  | 1,985                   | 341  | 1,985  | 1,243      | 9/30/2009                               |
| 251510LG6            | 519  | 443                     | 75   | 419  | 443        | 9/30/2009                               |
| 251510LM3            | 4,536  | 4,512                   | 25   | 4,512  | 692        | 9/30/2009                               |
| 32052MAA9            | 284  | 250                     | 35   | 250  | 135        | 9/30/2009                               |
| 32056JAB0            | 3,372  | 1,449                   | 1,923  | 1,449  | 1,004      | 9/30/2009                               |
| 3622E8AF2            | 2,000  | 1,916                   | 84   | 1,916  | 1,006      | 9/30/2009                               |
| 3622ELAG1            | 4,833  | 4,713                   | 120  | 4,713  | 2,594      | 9/30/2009                               |
| 36244SAC2            | 4,599  | 4,492                   | 107  | 4,492  | 2,716      | 9/30/2009                               |
| 45660LS75            | 5,003  | 4,650                   | 352  | 4,650  | 2,535      | 9/30/2009                               |
| 456673AB8            | 5,563  | 4,825                   | 738  | 4,825  | 1,874      | 9/30/2009                               |
| 45669EAE6            | 3,692  | 3,549                   | 142  | 3,549  | 2,089      | 9/30/2009                               |
| 46628LAA6            | 610  | 589                     | 21   | 589  | 423        | 9/30/2009                               |
| 46629BAG4            | 377  | 252                     | 124  | 125  | 252        | 9/30/2009                               |
| 46629BAH2            | 363  | 215                     | 149  | 65   | 215        | 9/30/2009                               |
| 46629CAN7            | 4,316  | 3,100                   | 1,216  | 3,100  | 1,355      | 9/30/2009                               |
| 46630KAC0            | 1,500  | 1,387                   | 113  | 1,387  | 644        | 9/30/2009                               |
| 59025GAB7            | 3,495  | 2,432                   | 1,063  | 2,432  | 1,106      | 9/30/2009                               |
| 61749EAD9            | 1,801  | 1,759                   | 42   | 1,759  | 1,097      | 9/30/2009                               |
| 61749EAH0            | 2,000  | 1,848                   | 152  | 1,848  | 1,113      | 9/30/2009                               |

**IMPAIRMENTS TAKEN ON CURRENT HOLDINGS AS OF DECEMBER 31, 2010 (CONTINUED)**

| (1)                                   | (2)  | (3)                     | (4)  | (5)  | (6)        | (7)                                     |
|---------------------------------------|--|-------------------------|--|--|------------|---|
| CUSIP <sup>(1)</sup>                  | Amortized<br>cost before<br>current period<br>OTTI | Projected<br>Cash Flows | Current Period<br>Recognized<br>Other-than-<br>Temporary<br>Impairment | Amortized Cost<br>After Other-<br>than-<br>Temporary<br>Impairment | Fair Value | Financial Statement<br>Reporting Period |
| 61750YAD1                             | 3,000  | 2,837                   | 163  | 2,837  | 1,522      | 9/30/2009                               |
| 61750YAJ8                             | 3,000  | 2,848                   | 152  | 2,848  | 1,479      | 9/30/2009                               |
| 61751DAE4                             | 500  | 466                     | 34   | 466  | 263        | 9/30/2009                               |
| 74958XAF1                             | 3,830  | 3,692                   | 138  | 3,692  | 2,266      | 9/30/2009                               |
| 76112BKN9                             | 2,133  | 2,131                   | 2  | 2,131  | 1,418      | 9/30/2009                               |
| 863579Y36                             | 4,803  | 4,277                   | 527  | 4,277  | 1,475      | 9/30/2009                               |
| 86361PAF3                             | 3,032  | 2,787                   | 245  | 2,787  | 1,928      | 9/30/2009                               |
| 86361PAK2                             | 1,790  | 1,496                   | 294  | 1,496  | 1,145      | 9/30/2009                               |
| 92925GAA1                             | 5,790  | 5,750                   | 40   | 5,750  | 1,568      | 9/30/2009                               |
| 933636AC6                             | 3,745  | 3,719                   | 26   | 3,719  | 2,512      | 9/30/2009                               |
| 933636AH5                             | 7,984  | 4,954                   | 3,030  | 4,954  | 1,934      | 9/30/2009                               |
| 94984UAE6                             | 3,373  | 3,312                   | 61   | 3,312  | 1,811      | 9/30/2009                               |
| 059515AE6                             | 5,000  | 4,523                   | 477  | 4,523  | 1,578      | 7/1/2009                                |
| 05951KAZ6                             | 2,496  | 2,209                   | 287  | 2,209  | 1,456      | 7/1/2009                                |
| 12628KAF9                             | 6,000  | 5,381                   | 618  | 5,381  | 2,022      | 7/1/2009                                |
| 126683AC5                             | 3,455  | 1,523                   | 1,932  | 1,523  | 705        | 7/1/2009                                |
| 126685DX1                             | 4,000  | 2,788                   | 1,212  | 2,788  | 954        | 7/1/2009                                |
| 17309BAB3                             | 4,891  | 4,525                   | 366  | 4,525  | 2,928      | 7/1/2009                                |
| 23242MAC5                             | 5,060  | 2,487                   | 2,573  | 2,487  | 1,112      | 7/1/2009                                |
| 23242MAD3                             | 4,971  | 2,363                   | 2,609  | 2,363  | 1,034      | 7/1/2009                                |
| 251510LG6                             | 2,606  | 510                     | 2,096  | 510  | 446        | 7/1/2009                                |
| 32052MAA9                             | 379  | 284                     | 94   | 284  | 132        | 7/1/2009                                |
| 3622ELAG1                             | 5,000  | 4,833                   | 167  | 4,833  | 2,514      | 7/1/2009                                |
| 36244SAC2                             | 5,000  | 4,599                   | 401  | 4,599  | 2,617      | 7/1/2009                                |
| 456673AB8                             | 7,779  | 5,665                   | 2,113  | 5,665  | 5,288      | 7/1/2009                                |
| 45669EAE6                             | 4,143  | 3,705                   | 438  | 3,705  | 1,753      | 7/1/2009                                |
| 46629BAG4                             | 1,000  | 249                     | 751  | 249  | 249        | 7/1/2009                                |
| 46629BAH2                             | 1,000  | 213                     | 787  | 213  | 213        | 7/1/2009                                |
| 61749EAD9                             | 2,000  | 1,801                   | 199  | 1,801  | 788        | 7/1/2009                                |
| 863579Y36                             | 4,931  | 4,803                   | 128  | 4,803  | 1,394      | 7/1/2009                                |
| 86361PAK2                             | 5,195  | 1,818                   | 3,377  | 1,818  | 1,159      | 7/1/2009                                |
| 94984UAE6                             | 3,840  | 3,433                   | 407  | 3,433  | 1,757      | 7/1/2009                                |
| <b>Subtotal -Separate<br/>Account</b> | <b>XXX</b>   | <b>XXX</b>              | <b><u>67,461</u></b>   | <b>XXX</b>   | <b>XXX</b> |   |
| <b>Grand Total</b>                    | <b>XXX</b>   | <b>XXX</b>              | <b><u>\$ 312,814</u></b>   | <b>XXX</b>   | <b>XXX</b> |   |

(1) Only the impaired lots within each CUSIP are included within this table.

The following tables present the Company's gross unrealized losses and fair values for bonds and equities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2010 and 2009 (in millions):

|  | 2010                |                   |                        |                   |                  |                     |
|--|---------------------|-------------------|------------------------|-------------------|------------------|---------------------|
|  | Less than 12 months |                   | Greater than 12 months |                   | Total            |                     |
|  | Estimated           |                   | Estimated              |                   | Estimated        |                     |
|  | Fair Value          | Unrealized Losses | Fair Value             | Unrealized Losses | Fair Value       | Unrealized Losses** |
| <b>Bonds</b>                                   |                     |                   |                        |                   |                  |                     |
| U.S. Treasury and U.S. Government corporations | \$ 898              | \$ 31             | \$ -                   | \$ -              | \$ 898           | \$ 31               |
| U.S. agencies, state and municipal             | 872                 | 40                | -                      | -                 | 872              | 40                  |
| Foreign governments                            | 96                  | 6                 | -                      | -                 | 96               | 6                   |
| U.S. corporate                                 | 2,841               | 96                | 1,099                  | 131               | 3,940            | 227                 |
| Foreign corporate                              | 909                 | 35                | 338                    | 22                | 1,247            | 57                  |
| Residential mortgage-backed securities         | 1,354               | 48                | 1,934                  | 537               | 3,288            | 585                 |
| Commercial mortgage-backed securities          | 138                 | 5                 | 961                    | 152               | 1,099            | 157                 |
| Other asset-backed securities                  | 341                 | 9                 | 1,557                  | 187               | 1,898            | 196                 |
| <b>Total Bonds</b>                             | <u>7,449</u>        | <u>270</u>        | <u>5,889</u>           | <u>1,029</u>      | <u>13,338</u>    | <u>1,299</u>        |
| <b>Equity Securities (Unaffiliated)</b>        |                     |                   |                        |                   |                  |                     |
| Common Stock                                   | 5                   | 2                 | -                      | -                 | 5                | 2                   |
| Preferred Stock                                | 1                   | - *               | -                      | -                 | 1                | -                   |
| <b>Total Equity Securities</b>                 | <u>6</u>            | <u>2</u>          | <u>-</u>               | <u>-</u>          | <u>6</u>         | <u>2</u>            |
| <b>Total</b>                                   | <u>\$ 7,455</u>     | <u>\$ 272</u>     | <u>\$ 5,889</u>        | <u>\$ 1,029</u>   | <u>\$ 13,344</u> | <u>\$ 1,301</u>     |

\* Aggregate unrealized losses are less than \$1 million.

\*\* Includes unrealized losses of \$100 million related to NAIC 6 rated bonds included in the statutory carrying amount.

|  | 2009                       |                          |                            |                      |                            |                        |
|--|----------------------------|--------------------------|----------------------------|----------------------|----------------------------|------------------------|
|  | Less than 12 months        |                          | Greater than 12 months     |                      | Total                      |                        |
|  | Estimated<br>Fair<br>Value | Unrealized<br>Losses (1) | Estimated<br>Fair<br>Value | Unrealized<br>Losses | Estimated<br>Fair<br>Value | Unrealized<br>Losses** |
| <b>Bonds</b>                                   |                            |                          |                            |                      |                            |                        |
| U.S. Treasury and U.S. Government corporations | \$ 1,954                   | \$ 116                   | \$ 8                       | \$ - *               | \$ 1,962                   | \$ 116                 |
| U.S. agencies, state and municipal             | 282                        | 9                        | 124                        | 26                   | 406                        | 35                     |
| Foreign governments                            | 172                        | 7                        | 12                         | 3                    | 184                        | 10                     |
| U.S. corporate                                 | 3,366                      | 104                      | 4,759                      | 429                  | 8,125                      | 533                    |
| Foreign corporate                              | 920                        | 23                       | 1,145                      | 89                   | 2,065                      | 112                    |
| Residential mortgage-backed securities         | 3,408                      | 163                      | 2,194                      | 938                  | 5,602                      | 1,101                  |
| Commercial mortgage-backed securities          | 699                        | 32                       | 2,749                      | 605                  | 3,448                      | 637                    |
| Other asset-backed securities                  | 112                        | 11                       | 1,984                      | 323                  | 2,096                      | 334                    |
| <b>Total Bonds</b>                             | <u>10,913</u>              | <u>465</u>               | <u>12,975</u>              | <u>2,413</u>         | <u>23,888</u>              | <u>2,878</u>           |
| <b>Equity Securities (Unaffiliated)</b>        |                            |                          |                            |                      |                            |                        |
| Common Stock                                   | 4                          | - *                      | -                          | -                    | 4                          | -                      |
| Preferred Stock                                | 17                         | 2                        | -                          | -                    | 17                         | 2                      |
| <b>Total Equity Securities</b>                 | <u>21</u>                  | <u>2</u>                 | <u>-</u>                   | <u>-</u>             | <u>21</u>                  | <u>2</u>               |
| <b>Total</b>                                   | <u>\$ 10,934</u>           | <u>\$ 467</u>            | <u>\$ 12,975</u>           | <u>\$ 2,413</u>      | <u>\$ 23,909</u>           | <u>\$ 2,880</u>        |

(1) For loan-backed and structured securities, the aging of the unrealized losses as of December 31, 2009 was reset back to the date the security would have been first impaired under SSAP 43R.

\* Aggregate unrealized losses are less than \$1 million.

\*\* Includes unrealized losses of \$134 million related to NAIC 6 rated bonds included in the statutory carrying amount.

At December 31, 2010, the gross unrealized loss on bonds and equity securities was comprised of approximately 2,331 and 40 different securities, respectively. Of the total amount of bond unrealized losses, \$751 million or 58% is related to unrealized losses on investment grade securities. Investment grade is defined as a security having a credit rating from the NAIC of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); or a comparable internal rating if an externally provided rating is not available. Unrealized losses on bonds with a rating below investment grade represent \$548 million or 42% of the total amount of bond unrealized losses.

The amount of gross unrealized losses for bonds where fair value had declined by 20% or more of the amortized cost, totaled \$642 million. The amount of time that each of these securities has continuously been below amortized cost by 20% or more consists of \$62 million for 6 months or less, \$16 million for greater than 6 months through 12 months, and \$564 million for greater than 12 months. In accordance with the Company's impairment policy, the Company performed quantitative and qualitative analysis to determine if the decline was temporary. For those securities where the decline was considered temporary, the Company did not recognize an impairment when it had the ability and intent to hold until recovery.

The overall improvement in the Company's fixed maturity investment portfolio generally reflects higher market prices, mainly due to declining interest rates and credit spread tightening throughout the year.

**Corporate Bonds.** Unrealized losses on corporate bonds were \$284 million or 22% of the total bond unrealized losses. The amount of unrealized losses on the Company's investment in corporate bonds was spread over 828 individual securities with varying interest rates and maturities. Corporate securities that were priced below 80% of the security's amortized cost represented \$81 million or 6% of the total bond unrealized losses. While the losses were spread across all industry sectors, the largest unrealized losses on securities that were priced below 80% of the security's amortized cost were Finance (\$49 million), Paper & Forest Products/Packing (\$10 million), Real Estate Investment Trust ("REITs") (\$6 million), Gaming and Leisure (\$5 million) and Utilities (\$5 million). These securities are evaluated in accordance with the Company's impairment policy. Because the securities continue to meet their contractual payments and the Company has the ability and intent to retain the investments for the period of time sufficient to allow for an anticipated recovery in value, the Company did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

**Residential Mortgage-Backed Securities.** Unrealized losses on residential mortgage-backed securities were \$585 million or 45% of the total bond unrealized losses. These losses were spread across approximately 471 fixed and variable rate investment grade securities as well as 332 below investment grade securities. The majority of the Company's holdings (over 60%) were investment grade and management believes all deals remain well collateralized. Residential mortgage-backed securities that were priced below 80% of the security's amortized cost represented \$396 million or 68% of the total unrealized losses for residential mortgage-backed securities. The Company evaluates these securities for other-than-temporary impairments in accordance with the Company's impairment policy using quarterly cash flow projections. The projections are done for each security based upon the evolution of prepayment, delinquency and default rates for the pool of mortgages collateralizing each security, and the projected impact on the course of future prepayments, defaults, and losses in the pool of mortgages, but do not include market prices. The Company has the ability and intent to retain the investments until recovery and therefore, the Company did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

**Commercial Mortgage-Backed Securities.** Unrealized losses on commercial mortgage-backed securities were \$157 million or 12% of the total bond unrealized losses. These losses were spread across approximately 151 fixed and variable rate investment grade securities. The majority of the Company's holdings (over 85%) were investment grade and management believes all deals remain well collateralized. Commercial mortgage-backed securities that were priced below 80% of the security's amortized cost represented \$67 million or 43% of the total unrealized losses for commercial mortgage-backed securities. The Company evaluates these securities for other-than-temporary impairments in accordance with its impairment policy using cash flow modeling techniques coupled with an evaluation of facts and circumstances. The Company has the ability and intent to retain the investments for the period of time sufficient to allow for an anticipated recovery in value and therefore, the Company did not consider these investments to be other-than-temporarily impaired at December 31, 2010.

**Other Asset-Backed Securities.** Unrealized losses on asset-backed securities were \$196 million or 15% of the total bond unrealized losses. These losses were spread across 250 securities. Asset-backed securities that were priced below 80% of the security's amortized cost represented \$98 million or 50% of the total unrealized losses for asset-backed securities. The Company evaluates these securities for impairments based on facts and circumstances. The Company did not consider these investments to be other-than-temporarily impaired at December 31, 2010 because the Company has the ability and intent to retain the investments for the period of time sufficient to allow for an anticipated recovery in value.

## **NOTE 5 – DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company uses derivative financial instruments to manage interest rate, currency, market and credit risk. These derivative financial instruments include foreign exchange forward contracts, futures contracts, interest rate and equity options and interest rate, inflation, credit default and currency swaps. The Company also uses written covered call options in order to generate income. The Company does not engage in derivative financial instrument transactions for speculative purposes.

The Company deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. The Company has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties. The Company uses master netting agreements and adjusts transaction levels, when appropriate, to minimize risk. The Company's policy is to not offset the fair value amounts recognized for derivatives with the associated collateral.

To further minimize risk, credit support annexes ("CSAs") are negotiated as part of swap documentation entered into by the Company with counterparties. The CSA defines the terms under which collateral is transferred in order to mitigate credit risk arising from "in the money" derivative positions. The CSA requires that a swap counterparty post collateral to secure that portion of its anticipated swap obligation in excess of a specified threshold. Collateral received is invested in short-term investments. Those agreements also include credit contingent provisions whereby the threshold typically declines on a sliding scale with a decline in the counterparties' rating. In addition, certain of the Company's contracts contain provisions that require the Company to maintain a specific investment grade credit rating and if the Company's credit rating were to fall below that specified rating, the counterparty to the derivative instrument could request immediate payout or full collateralization. The aggregate fair value of all over the counter derivative instruments with credit-risk-related contingent features that are in a net liability position as of December 31, 2010 and 2009 was \$164 million and \$202 million, respectively, for which the Company has posted collateral with a fair value of \$93 million and \$105 million, respectively. If the credit contingent features had been triggered as of December 31, 2010, the Company estimates that it would have been required to post an additional \$15 million of collateral for a one notch downgrade in the Company's credit rating and \$46 million for a downgrade that would trigger full collateralization or termination.

Notional or contractual amounts of derivative financial instruments provide a measure of involvement in these types of transactions and do not represent the amounts exchanged between the parties engaged in the transaction. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivative financial instruments, which relate to interest rates, exchange rates, or other financial indices.

The Company is exposed to credit-related losses in the event that a counterparty fails to perform its obligations under contractual terms. For contracts with counterparties where no netting provisions are specified in the master agreements, in the event of default, credit exposure is defined as the fair value of contracts in a gain position at the reporting date. Credit exposure to counterparties where a netting arrangement is in place, in the event of default, is defined as the net fair value, if positive, of all outstanding contracts with each specific counterparty. As of December 31, 2010 and 2009, the Company held collateral for derivatives of \$327 million and \$268 million, respectively. Credit risk exposure in a net gain position, net of offsets and collateral, was \$55 million and \$14 million at December 31, 2010 and 2009, respectively.



## **Interest Rate Risk Management**

The Company enters into various types of interest rate contracts primarily to minimize exposure of specific assets and liabilities held by the Company to fluctuations in interest rates.

Interest rate swaps are agreements with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to an agreed notional amount. Generally, no cash is exchanged at the onset of the contract and no principal payments are made by either party. A single net payment is usually made by one counterparty at each interest due date. Swap contracts outstanding at December 31, 2010 and 2009 were between less than 1 year and 30 years to maturity. The Company does not act as an intermediary or broker in interest rate swaps.

Interest rate cap contracts entered into by the Company hedge the risk of increasing interest rates on policyholder liability obligations. The Company will receive payments from counterparties should interest rates exceed an agreed upon strike price. Changes in the fair value of open contracts are recognized in surplus as unrealized gains or losses, net of deferred taxes.

## **Currency Risk Management**

The Company enters into foreign currency swaps and foreign exchange forward contracts primarily as a hedge against foreign currency fluctuations. The primary purpose of the Company's foreign currency hedging activities is to protect it from the risk that the value of foreign currency denominated assets and liabilities and net investments in foreign subsidiaries will be adversely affected by changes in exchange rates.

The Company's foreign exchange forward contracts involve the exchange of 12 currencies at a specified future date and at a specified price. The contracts range in duration from one to twenty-four months. No cash is exchanged at the time the agreement is entered into.

The Company did not have any outstanding purchased or written foreign currency options as of December 31, 2010 and 2009.

## **Market Risk Management**

The Company may purchase equity put options to minimize exposure to the market risk associated with underlying equities. There are upfront fees paid or received related to option contracts at the time the agreements are entered into.

## **Credit Risk**

The Company enters into credit default swaps to transfer the credit exposure of fixed income products.

## **Income Generation**

The Company seeks to increase profits and to mitigate losses in underlying equity positions by writing covered call options.

## **Hedge Effectiveness**

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge which includes the item and

risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. The hedging relationship is considered highly effective if the changes in fair value or discounted cash flows of the hedging instrument is within 80-125% of the inverse changes in the fair value or discounted cash flows of the hedged item.

The Company discontinues hedge accounting prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) the derivative expires or is sold, terminated, or exercised, (iii) it is probable that the forecasted transaction will not occur, or (iv) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

The following tables present the notional amount, number of contracts, gross fair value and carrying value of derivative instruments that are qualifying and designated as hedging instruments, by type of hedge designation, and those that are not designated as hedging instruments at December 31, 2010 and 2009 (in millions, except for number of contracts). See Note 2 – Significant Accounting Policies for more information on derivatives and how they are accounted for. Also, for a discussion of valuation methods for derivative instruments refer to Note 17 – Fair Value Measurements.

|  |                              |                  |                            |                       |                  |                           |                  | <b>December 31, 2010</b> |  |  |  |
|--|------------------------------|------------------|----------------------------|-----------------------|------------------|---------------------------|------------------|--------------------------|--|--|--|
|  |                              | <b>Volume</b>    |                            | <b>Fair Value (a)</b> |                  | <b>Carrying Value (a)</b> |                  |                          |  |  |  |
| <b>Derivative type</b>   | <b>Primary Risk Exposure</b> | <b>Notional</b>  | <b>Number of Contracts</b> | <b>Asset</b>          | <b>Liability</b> | <b>Asset</b>              | <b>Liability</b> |                          |  |  |  |
| <b>Derivatives qualifying and designated as hedging:</b>                     |                              |                  |                            |                       |                  |                           |                  |                          |  |  |  |
| <b>Cash Flow Hedges:</b>   |                              |                  |                            |                       |                  |                           |                  |                          |  |  |  |
| Interest rate swaps  | Interest                     | \$ 708           | 57                         | \$ 113                | \$ 1             | \$ -                      | \$ -             |                          |  |  |  |
| Currency swaps   | Currency                     | 2,612            | 26                         | 219                   | 186              | 262                       | 169              |                          |  |  |  |
| <b>Net Investment Hedges:</b>  |                              |                  |                            |                       |                  |                           |                  |                          |  |  |  |
| Currency forwards  | Currency                     | 193              | 3                          | -                     | 16               | -                         | 18               |                          |  |  |  |
| <b>Total derivatives qualifying and designated as hedging instruments</b>    |                              | <b>\$ 3,513</b>  | <b>86</b>                  | <b>\$ 332</b>         | <b>\$ 203</b>    | <b>\$ 262</b>             | <b>\$ 187</b>    |                          |  |  |  |
| <b>Derivatives not qualifying or designated as hedging:</b>                  |                              |                  |                            |                       |                  |                           |                  |                          |  |  |  |
| Interest rate swaps  | Interest                     | 3,784            | 52                         | 183                   | 23               | 183                       | 23               |                          |  |  |  |
| Interest rate caps   | Interest                     | 2,220            | 8                          | 12                    | -                | 12                        | -                |                          |  |  |  |
| Swaptions  | Interest                     | 10,330           | 34                         | 82                    | -                | 82                        | -                |                          |  |  |  |
| Inflation swaps  | Interest                     | 62               | 7                          | 1                     | 1                | 1                         | 1                |                          |  |  |  |
| Currency swaps   | Currency                     | 2,057            | 35                         | 108                   | 116              | 108                       | 116              |                          |  |  |  |
| Currency forwards  | Currency                     | 608              | 45                         | 2                     | 57               | 2                         | 57               |                          |  |  |  |
| Treasury locks   | Market                       | 425              | 5                          | 1                     | 24               | 1                         | 24               |                          |  |  |  |
| Call options   | Market                       | 1,500            | 3                          | -                     | -                | -                         | -                |                          |  |  |  |
| Credit default swaps:<br>Sell protection                                     | Credit                       | 33               | 4                          | -                     | 1                | -                         | 1                |                          |  |  |  |
| <b>Total derivatives not qualifying or designated as hedging instruments</b> |                              | <b>\$ 21,019</b> | <b>193</b>                 | <b>\$ 389</b>         | <b>\$ 222</b>    | <b>\$ 389</b>             | <b>\$ 222</b>    |                          |  |  |  |
| <b>Total Derivatives</b>   |                              | <b>\$ 24,532</b> | <b>279</b>                 | <b>\$ 721</b>         | <b>\$ 425</b>    | <b>\$ 651</b>             | <b>\$ 409</b>    |                          |  |  |  |

(a) The carrying value of all derivatives in an asset position is reported within other invested assets in the accompanying Statutory Statements of Financial Position and the carrying value of all derivatives in a liability position is reported within other liabilities in the accompanying Statutory Statements of Financial Position.

December 31, 2009

| Derivative type  | Primary Risk Exposure | Volume           |                     | Fair Value (a) |               | Carrying Value (a) |               |
|--|-----------------------|------------------|---------------------|----------------|---------------|--------------------|---------------|
|  |                       | Notional         | Number of Contracts | Asset          | Liability     | Asset              | Liability     |
| <b>Derivatives qualifying and designated as hedging:</b>                     |                       |                  |                     |                |               |                    |               |
| <b>Fair Value Hedges:</b>  |                       |                  |                     |                |               |                    |               |
| Interest rate swaps  | Interest              | \$ 1             | 1                   | \$ -           | \$ -          | \$ -               | \$ -          |
| <b>Cash Flow Hedges:</b>   |                       |                  |                     |                |               |                    |               |
| Interest rate swaps  | Interest              | 1,676            | 51                  | 80             | 6             | -                  | -             |
| Currency swaps   | Currency              | 2,960            | 34                  | 172            | 171           | 203                | 156           |
| <b>Net Investment Hedges:</b>  |                       |                  |                     |                |               |                    |               |
| Currency forwards  | Currency              | 193              | 3                   | 3              | 9             | 3                  | 9             |
| <b>Total derivatives qualifying and designated as hedging instruments</b>    |                       | <b>\$ 4,830</b>  | <b>89</b>           | <b>\$ 255</b>  | <b>\$ 186</b> | <b>\$ 206</b>      | <b>\$ 165</b> |
| <b>Derivatives not qualifying or designated as hedging:</b>                  |                       |                  |                     |                |               |                    |               |
| Interest rate swaps  | Interest              | 3,216            | 120                 | 76             | 95            | 76                 | 95            |
| Interest rate options  | Interest              | 920              | 1                   | -              | -             | -                  | -             |
| Currency swaps   | Currency              | 2,468            | 31                  | 271            | 107           | 202                | 99            |
| Currency forwards  | Currency              | 462              | 29                  | -              | 58            | -                  | 58            |
| Inflation swaps  | Market                | 39               | 1                   | -              | -             | -                  | -             |
| Credit default swaps:  |                       |                  |                     |                |               |                    |               |
| Buy protection   | Credit                | 33               | 4                   | -              | 1             | -                  | 1             |
| <b>Total derivatives not qualifying or designated as hedging instruments</b> |                       | <b>\$ 7,138</b>  | <b>186</b>          | <b>\$ 347</b>  | <b>\$ 261</b> | <b>\$ 278</b>      | <b>\$ 253</b> |
| <b>Total Derivatives</b>   |                       | <b>\$ 11,968</b> | <b>275</b>          | <b>\$ 602</b>  | <b>\$ 447</b> | <b>\$ 484</b>      | <b>\$ 418</b> |

(a) The carrying value of all derivatives in an asset position is reported within other invested assets in the accompanying Statutory Statements of Financial Position and the carrying value of all derivatives in a liability position is reported within other liabilities in the accompanying Statutory Statements of Financial Position.

### Cash Flow Hedges

The Company's cash flow hedges primarily include hedges of floating rate securities and foreign currency denominated assets and liabilities. The assessment of hedge effectiveness for cash flow hedges of interest rate risk excludes amounts relating to risks other than exposure to the benchmark interest rate. For these cash flow hedges of interest rate risk, the Company uses either the short-cut method, if appropriate, or regression analysis to assess hedge effectiveness to changes in the benchmark interest rate. Derivative instruments used in cash flow hedges that meet the criteria of a highly effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability. The Company designates and accounts for the following as cash flow hedges: (i) interest rate swaps to convert floating rate investments to fixed rate investments; (ii) interest rate swaps to convert floating rate liabilities into fixed rate liabilities; (iii) foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated investments and liabilities; and (iv) interest rate swaps to hedge the interest rate risk associated with forecasted transactions.

In 2010, there were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transactions did not occur on the anticipated date or in the additional time period permitted.

In December 2009, the Company discontinued cash flow hedge accounting on interest rate swaps that were hedging the forecasted interest payments on an underlying interest only strip. A \$9 million impairment loss was taken on the underlying bond. The Company believes that it is no longer probable that all the cash flows will still occur due to credit concerns. As such, hedge accounting was discontinued. A \$9 million unrealized gain was recognized as the swaps were previously reported at amortized cost. The swaps will be carried at fair value with changes recognized in surplus as unrealized gains or losses.

There were no other gains or losses recognized in unrealized gains or losses during the reporting period resulting from derivatives that no longer qualify for hedge accounting.

The following table presents the effects of derivatives in cash flow hedging relationships in the accompanying Statutory Statements of Operations and Statutory Statements of Changes in Surplus for the years ended December 31, 2010 and 2009 (in millions).

| Cash Flow Hedging Relationships | Amount of Gain or (Loss) Recognized in Surplus on Derivatives (a) |        | Amount of Gain or (Loss) Recognized in Net Realized Capital (Losses) on Derivatives (b) |        | Amount of Gain or (Loss) Recognized in Net Investment Income on Derivatives (b) |         | Amount of Gain or (Loss) Recognized in Other Income on Derivatives (b) |      |
|---------------------------------|---|--------|---|--------|---|---------|--|------|
|                                 | 2010  | 2009   | 2010  | 2009   | 2010  | 2009    | 2010   | 2009 |
|                                 | Interest rate contracts   | \$ -   | \$ -  | \$ 9   | \$ 51   | \$ 3    | \$ 6   | \$ - |
| Currency contracts              | 49  | 118    | (13)  | 60     | (19)  | (23)    | (19)   | -    |
| Total                           | \$ 49   | \$ 118 | \$ (4)  | \$ 111 | \$ (16)   | \$ (17) | \$ (19)  | \$ - |

(a) The amount of gain or (loss) recognized in surplus is reported as a change in net unrealized gains (losses) in the accompanying Statutory Statements of Changes in Surplus.

(b) The amount of gain or (loss) recognized in net income is reported in net realized capital (losses), net investment income or other income in the accompanying Statutory Statements of Operations. The amounts include periodic settlement payments received or paid on the derivatives.

## Fair Value Hedges

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reported based on how the change in the fair value of the underlying asset or liability being hedged is reported.

The Company designates and accounts for the following as fair value hedges when they have met the requirements for a qualified hedge: (i) interest rate swaps to convert fixed rate investments to floating rate investments; (ii) foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated investments; (iii) equity swaps to hedge the market price risk for common stock investments.

For fair value hedges, the Company generally uses a qualitative assessment to assess hedge effectiveness, which matches the critical terms of the derivative with the underlying hedged item. For fair value hedges of equity investments, the Company uses regression analysis, which measures the correlation to the equity exposure being hedged. The Company's fair value hedges are primarily hedges of fixed maturity securities.

The Company recognizes gains and losses on both the derivative instrument and the related hedged item in fair value hedges within surplus as a change in net unrealized gains and losses in the accompanying Statutory Statements of Changes in Surplus for hedges of equity positions. Hedges of investments in bonds (and other assets or liabilities carried at cost or amortized cost) are carried at amortized cost with no recognition of changes in fair value of the derivative. The Company did not have any fair value hedges in 2010. In 2009, the gains from fair value hedges were less than \$1 million.

For fair value hedges, all components of each derivative's gain or loss were included in the assessment of hedge effectiveness. There were no instances during 2010 and 2009 in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge due to hedge ineffectiveness.

### Net Investment Hedges

The following table presents the effects of derivatives in net investment hedging relationships in the accompanying Statutory Statements of Changes in Surplus for the years ended December 31, 2010 and 2009 (in millions):

| Derivatives in Net Investment Hedging Relationships | Amount of Gain or (Loss) Recognized in Surplus on Derivatives (a) |         | Amount of Gain or (Loss) Recognized in Net Realized Capital (Losses) on Derivatives (b) |      |
|---|---|---------|---|------|
|   | 2010  | 2009    | 2010  | 2009 |
|   | Currency contracts  | \$ (12) | \$ (22)   | \$ - |

(a) The amount of gain or (loss) is reflected in unrealized gains and losses as part of the foreign currency translation adjustment in the accompanying Statutory Statements of Changes in Surplus.

(b) The amount of gain or (loss) recognized in net income is reported in net realized capital gains (losses) in the accompanying Statutory Statements of Operations.

### Derivatives Not Qualifying or Designated as Hedging Instruments

The Company has derivative instruments that are not designated or do not qualify for hedge accounting treatment.

The following table provides the classification and amount of gains and losses on derivative instruments not designated as hedging instruments for the years ended December 31, 2010 and 2009 (in millions):

| Derivatives not<br>Qualifying or Designated<br>as Hedging | Amount of Gain or (Loss)<br>Recognized in Surplus on<br>Derivatives (a) |               | Amount of Gain or (Loss)<br>Recognized in Net Realized<br>Capital (Losses) on<br>Derivatives (b) |                 | Amount of Gain or (Loss)<br>Recognized in Net<br>Investment Income on<br>Derivatives (b) |              | Amount of Gain or (Loss)<br>Recognized in Other<br>Income on Derivatives (b) |             |
|---|---|---------------|--|-----------------|--|--------------|--|-------------|
|   | 2010  | 2009          | 2010   | 2009            | 2010   | 2009         | 2010   | 2009 (d)    |
|   | Interest rate swaps (c)   | \$ 190        | \$ 224   | \$ (76)         | \$ (352)   | \$ (7)       | \$ 2   | \$ 2        |
| Interest rate options                                     | 25  | 2             | 106  | -               | (6)  | (2)          | -  | -           |
| Currency swaps  | (230)   | 79            | 31   | 78              | 22   | 20           | 59   | -           |
| Currency forwards   | 2   | (48)          | (44)   | (8)             | -  | -            | -  | -           |
| Equity options  | -   | -             | -  | 1               | -  | -            | -  | -           |
| Bond forward  | (24)  | -             | -  | -               | -  | -            | -  | -           |
| Inflation swaps*  | (1)   | -             | -  | -               | (1)  | -            | -  | -           |
| Futures   | -   | -             | (138)  | -               | -  | -            | -  | -           |
| Credit default swaps                                      |   |               |  |                 |  |              |  |             |
| CDS - buy protection                                      | 1   | (1)           | (1)  | (1)             | -  | -            | -  | -           |
| Bond call option  | (6)   | -             | -  | -               | (7)  | -            | -  | -           |
| <b>Total</b>  | <b>\$ (43)</b>  | <b>\$ 256</b> | <b>\$ (122)</b>  | <b>\$ (282)</b> | <b>\$ 1</b>  | <b>\$ 20</b> | <b>\$ 61</b>   | <b>\$ -</b> |

(a) The amount of gain or (loss) recognized in surplus is reported as a change in net unrealized gains (losses) in the accompanying Statutory Statements of Changes in Surplus.

(b) The amount of gain or (loss) recognized in net income is reported in net realized capital (losses), net investment income or other income in the accompanying Statutory Statements of Operations. The amounts include periodic settlement payments received or paid on the derivatives.

(c) Includes \$9 million unrealized gain on discontinued cash flow hedges for 2009.

(d) For 2009, these were reported in realized capital losses and net investment income.

\* Amounts are less than \$1 million.

## NOTE 6 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2010 and 2009, the Company made the following capital contributions to its insurance and holding company subsidiaries (in millions):

|              | <u>2010</u>  | <u>2009</u>     |
|--------------|--------------|-----------------|
| NYLI         | \$ 70        | \$ 243          |
| NYLIFE LLC   | 5            | 7               |
| HAIER        | 3            | -               |
| NYLIAC       | -            | 1,000           |
| <b>Total</b> | <u>\$ 78</u> | <u>\$ 1,250</u> |

In 2009, the Company sold fixed maturity and public equity securities to its subsidiary, NYLIAC. The aggregate statement value and market value of securities sold to NYLIAC were \$1,109 million and \$1,123 million, respectively. In connection with these transactions the Company deferred aggregate realized capital gains of \$32 million.

In 2009, the Company purchased public equity securities from NYLIAC in the amount of \$266 million.

During 2010, the Company received a return of capital from the following insurance and holding company subsidiaries:

|            | <u>2010</u>   | <u>2009</u> |
|------------|---------------|-------------|
| NYLI       | \$ 80         | \$ -        |
| NYLIFE LLC | 68            | -           |
| Total      | <u>\$ 148</u> | <u>\$ -</u> |

In 2010, the Company did not receive a dividend distribution from any of its subsidiaries. In 2009, the Company received dividend distributions from NYLIFE LLC of \$244 million. Dividend distributions are included in net investment income on the Statutory Statements of Operations.

The Company has entered into a loan agreement with NYLI associated with proceeds deposited with the Company from excess capital in a principal amount of \$78 million. NYLI did not have an immediate need for the cash and as a result, loaned the proceeds to the Company to earn a return of 5.58% less an investment management fee of 5.5 basis points. The investment income earned on the loan balance is capitalized to the loan. The effective termination date of this arrangement is March 31, 2011, but either party may terminate this arrangement with a minimum three months' notice. The outstanding payable to NYLI totaled \$82 million and \$134 million at December 31, 2010 and 2009, respectively, and includes capitalized accrued interest of \$3 million and \$5 million at December 31, 2010 and 2009, respectively. In addition, during 2010 and 2009, the Company made coupon interest payments of \$5 million and \$6 million, respectively.

During August 2003, the Company transferred without recourse several private placement debt securities to MCF. MCF is a wholly-owned subsidiary of New York Life Investments, which is in turn a wholly owned subsidiary of the Company. MCF paid the purchase price of the securities transferred by delivering to the Company promissory notes with terms identical to the securities transferred. During both 2010 and 2009, the Company received interest payments from MCF totaling \$1 million, which were included in net investment income in the accompanying Statutory Statements of Operations. At both December 31, 2010 and 2009, the outstanding balance payable to the Company totaled \$14 million. These amounts were included with "Other Invested Assets" on the accompanying Statutory Statements of Financial Position.

The Company has a revolving loan agreement with MCF dated April 16, 2001, as amended and restated as of January 1, 2010 (the "Prior MCF Loan Agreement"), establishing the terms under which the Company may provide funding to MCF in a principal amount not to exceed the lesser of \$3,200 million or 3% of the Company's admitted assets as of December 31 of the prior year. The original terms of the loan specified that quarterly interest on 85% of the outstanding balance used to fund senior loans be paid in cash based on the 90 day LIBOR rate plus a spread based on an agreed upon formula, with quarterly interest on the remaining 15% accruing at the rate of 16% per annum, compounded quarterly. Effective June 1, 2003, the Prior MCF Loan Agreement was amended to provide that a portion of the loan, not to exceed \$300 million, used to acquire equity investments would earn interest at 10% per annum, payable quarterly. Effective October 1, 2007, the Prior MCF Loan Agreement was amended to provide that a portion of the loan, not to exceed \$50 million, used to fund subordinated loans would earn interest at 9.5% per annum, payable quarterly. Effective January 1, 2010, the Prior MCF Loan Agreement was amended to provide that: (i) no new commitments entered into by MCF on or after January 1, 2010 will be funded by the Company under the Prior MCF Loan Agreement, other than add-on investments to MCF's equity investment commitments entered into prior to January 1, 2010, (ii) 89% of each advance used to fund senior debt commitments of MCF will be treated as a senior loan and will bear interest, payable quarterly, at a rate equal to the 90 day LIBOR rate plus 1.60% per annum, (iii) 11% of each



advance used to fund senior debt commitments of MCF will be treated as an accreting unit and will accrue a return at a rate of 16% per annum, compounded quarterly, and (iv) all outstanding advances made to MCF under the Prior MCF Loan Agreement, together with unpaid interest or accrued return thereon, will be due in full on July 1, 2015. During 2010 and 2009, the Company received interest payments from MCF under the Prior MCF Loan Agreement totaling \$69 million and \$89 million, respectively, which were included in net investment income in the accompanying Statutory Statements of Operations. At December 31, 2010 and 2009, the Company had outstanding loans receivable from MCF under the Prior MCF Loan Agreement of \$1,451 million and \$1,887 million, respectively. These amounts are included with "Other Invested Assets" in the accompanying Statutory Statements of Financial Position.

On April 30, 2010, the Company entered into a new revolving loan agreement with MCF (the "New MCF Loan Agreement"), effective as of January 1, 2010. The New MCF Loan Agreement establishes the terms under which the Company may provide funding to MCF for commitments to fund senior debt, subordinated debt and equity investments, in each case entered into on or after January 1, 2010, in a principal amount that, when aggregated with all other funding provided to or on behalf of MCF by the Company or its affiliates, will not exceed the lesser of \$3,200 million or 3% of the Company's admitted assets as of December 31 of the prior year. Terms of the loan provide that (i) 85% of each advance used to fund senior debt commitments of MCF will be treated as a senior loan and will bear interest, payable quarterly, at a rate equal to the 90 day LIBOR rate plus a spread based on an agreed upon formula, (ii) 15% of each advance used to fund senior debt commitments of MCF will be treated as an accreting unit, and will accrue a return at a rate of 16% per annum, compounded quarterly, (iii) each advance used to fund equity investments of MCF will bear interest at a rate of 10% per annum, payable quarterly, and will not exceed, when aggregated with all other funding provided to or on behalf of MCF by the Company or its affiliates for a similar purpose, \$300 million and (iv) each advance used to fund subordinated debt commitments of MCF will bear interest at a rate of 9.5% per annum, and will not exceed, when aggregated with all other funding provided to or on behalf of MCF by the Company or its affiliates for a similar purpose, \$50 million. All outstanding advances made to MCF under the New MCF Loan Agreement, together with unpaid interest or accrued return thereon will be due in full on July 1, 2015. During 2010, the Company received interest payments from MCF under the New MCF Loan Agreement totaling \$4 million, which were included in net investment income in the accompanying Statutory Statements of Operations. At December 31, 2010, the Company had outstanding loans receivable from MCF under the New MCF Loan Agreement of \$244 million. These amounts are included with "Other Invested Assets" in the accompanying Statutory Statements of Financial Position.

The Company has purchased from MCF participations in collateralized loans to third parties underwritten by MCF. Under the participation agreements, the Company assumes the performance risk on these loans with no recourse against MCF. In 2010 and 2009, the Company did not purchase any loans from MCF. At December 31, 2010 and 2009, the Company held loans with a total unfunded commitment amount of \$11 million. In addition, at December 31, 2009, the Company held funded loans of \$12 million, for a total commitment of \$23 million (there were no funded loans for 2010).

The Company executed a promissory note with NYLIFE LLC, dated August 22, 2001, whereby NYLIFE LLC loaned the Company \$239 million. The note had a par value of \$243 million and an interest rate of 3.3% per annum. Interest on the note was payable quarterly until maturity on August 21, 2011. In 2009, the Company made \$8 million in coupon interest payments and amortized \$1 million. On December 31, 2009, the Company prepaid the principal balance of \$243 million in accordance with prepayment provisions of the promissory note.

New York Life Capital Corporation ("NYLCC"), a wholly-owned subsidiary of NYLIFE LLC, has a credit agreement with the Company dated October 1, 1997, as amended on July 1, 2010, whereby

NYLCC has agreed to make loans to the Company in an amount up to but not exceeding \$2 billion, from proceeds from the issuance of commercial paper. In connection with borrowings under this agreement during 2010 and 2009, the Company recorded interest expense of \$2 million and \$4 million, respectively. At December 31, 2010 and 2009, the Company had a loan payable to NYLCC of \$562 million and \$531 million, respectively, which was included with "Borrowed Money" in the accompanying Statutory Statements of Financial Position.

Effective July 1, 2010, the Company and NYLCC closed on a 364 day \$500 million credit facility and a 3 year \$500 million credit facility. The 364 day facility will expire June 30, 2011 and the 3 year facility will expire on July 1, 2013. These two facilities replaced the 5 year \$1.5 billion credit facility which was terminated effective July 1, 2010. The Company and NYLCC are borrowers under each facility. In connection with the new credit facilities, NYLCC's commercial paper capacity has been reduced from \$3 billion to \$2 billion.

The Company has a Support Agreement, dated September 28, 1995, with its wholly-owned affiliate, NYLCC, to maintain NYLCC's tangible net worth in the amount of at least \$1. NYLCC serves as a conduit to the credit markets for the Company and its affiliates, and is authorized to issue commercial paper in an aggregate principal amount not to exceed \$3 billion. As of December 31, 2010 and 2009, the par value of commercial paper outstanding under this agreement was \$573 million and \$592 million, respectively.

Effective July 15, 2008, the Company, NYLI and their Indian affiliate Max New York Life Insurance Company Limited ("Max NYL") entered into a brand licensing and technical services agreement. The Company and NYLI agreed to provide various technical, insurance, financial, administrative and support services to Max NYL, and grant a license to Max NYL to use the trade name and trademarks of the Company in the conduct of Max NYL's operations in India. In consideration for the license and providing various services, Max NYL agreed to pay the Company the sum of \$73 million, less any applicable withholding taxes, over a period of five years. Max NYL's initial payment of \$15 million less applicable taxes was paid on the effective date of this agreement. Max NYL has paid quarterly installments of \$3 million less applicable taxes through December 31, 2010. The Company's indirect ownership percentage in Max NYL was 26% at December 31, 2010. The Company recognized \$32 million and \$3 million in "Other Income" in the Statutory Statements of Operations in 2010 and 2009, respectively. The remaining amounts received have been deferred and were recorded in "Other Liabilities" in the Statutory Statements of Financial Position and will be recognized as income when earned.

On April 1, 2000, the Company entered into Investment Advisory and Administrative Services Agreements with New York Life Investment Management LLC ("NYLIM") to receive investment advisory and administrative services from NYLIM. At December 31, 2010 and 2009, the total cost to the Company for these services amounted to \$126 million and \$101 million, respectively. The terms of the agreement require that these amounts be settled in cash within ninety days.

Under various written agreements, the Company has agreed to provide certain of its direct and indirect subsidiaries with certain services and facilities including but not limited to the following: accounting, tax and auditing services, legal services, actuarial services, electronic data processing operations, and communications operations. The Company is reimbursed for the identified costs associated with these services and facilities. Such costs amounting to \$911 million and \$863 million for the years ended December 31, 2010 and 2009, respectively, were incurred by the Company and billed to its subsidiaries. The terms of the agreements require that these amounts be settled in cash within ninety days.

At December 31, 2010 and 2009, the Company reported a net amount of \$227 million and \$211 million, respectively, due from subsidiaries and affiliates. The terms of the underlying agreements generally require that these amounts be settled in cash within ninety days.

The Company has purchased various Corporate Owned Life Insurance policies from NYLIAC for the purpose of informally funding certain benefits for the Company's employees and agents. These policies were issued to the Company on the same basis as policies sold to unrelated customers. For the years ended December 31, 2010 and 2009, the cash surrender value of these policies amounted to \$2,825 million and \$2,602 million, respectively, and was included with "Other Assets" in the accompanying Statutory Statements of Financial Position.

The Company has issued \$6,071 million and \$5,521 million at December 31, 2010 and 2009, respectively, of single premium annuities to NYLIAC in connection with NYLIAC's obligation under structured settlement agreements. The Company has guaranteed NYLIAC's obligation to unaffiliated third parties in the event of NYLIAC's insolvency.

The Company is the assumed obligor for certain structured settlement agreements with unaffiliated insurance companies, beneficiaries and other non-affiliated entities. To satisfy its obligations under these agreements, the Company owns single premium annuities issued by NYLIAC. The obligations are based upon the actuarially determined present value of expected future payments. Interest rates used in establishing such obligations range from 5.50% to 8.75%. The Company has directed NYLIAC to make the payments under the annuity contracts directly to the beneficiaries under the structured settlement agreements. At December 31, 2010 and 2009, the carrying value of the annuity contracts and the corresponding obligations amounted to \$151 million and \$152 million, respectively.

The Company has compensated NYLIAC for policy credits associated with converting the Company's term policies and term riders to universal life policies that are issued by NYLIAC without any additional underwriting. For the years ended December 31, 2010 and 2009, the Company paid \$18 million and \$17 million, respectively, to NYLIAC.

The Company has been compensated by NYLAZ for policy credits associated with converting NYLAZ's term policies to permanent cash value life insurance policies issued by the Company without any additional underwriting. For the years ended December 31, 2010 and 2009, the Company received \$2 million from NYLAZ for each year.

On October 26, 2010, the Company issued a guarantee in favor of ACE INA International Holdings, Ltd. on behalf of NYLI. Under the terms of the guarantee, the Company guarantees the payment of all amounts that are or may become due and payable by NYLI under a Share Purchase Agreement entered into in connection with NYLI's sale of its Hong Kong and South Korea operations.

In the ordinary course of business the Company enters into reinsurance agreements with its subsidiaries and affiliates. Material reinsurance agreements have been disclosed in Note 11 – Reinsurance.

## NOTE 7 – SIGNIFICANT SUBSIDIARY

NYLIAC is engaged in the life insurance and annuity businesses. A summary of NYLIAC's statutory basis statements of financial position at December 31, 2010 and 2009 and results of operations for the years then ended are as follows (in millions):

|                                 | <u>2010</u>      | <u>2009</u>      |
|---------------------------------|------------------|------------------|
| <b>Assets:</b>                  |                  |                  |
| Bonds                           | \$ 58,868        | \$ 54,551        |
| Mortgage loans and real estate  | 5,647            | 5,667            |
| Separate account assets         | 22,252           | 18,635           |
| Other                           | <u>10,950</u>    | <u>9,980</u>     |
| Total assets                    | <u>\$ 97,717</u> | <u>\$ 88,833</u> |
| <b>Liabilities and Surplus:</b> |                  |                  |
| Policy reserves                 | \$ 56,445        | \$ 51,644        |
| Separate account liabilities    | 22,233           | 18,624           |
| Other liabilities               | 13,615           | 13,567           |
| Capital and surplus             | <u>5,424</u>     | <u>4,998</u>     |
| Total liabilities and surplus   | <u>\$ 97,717</u> | <u>\$ 88,833</u> |
| <b>Results of Operations:</b>   |                  |                  |
| Net gain from operations        | \$ 614           | \$ 351           |
| Net realized capital losses     | <u>(52)</u>      | <u>(126)</u>     |
| Net income                      | <u>\$ 562</u>    | <u>\$ 225</u>    |

## NOTE 8 – INSURANCE LIABILITIES

Policy reserves, deposit funds and policy claims at December 31, 2010 and 2009 were as follows (in millions):

|  | <b>December 31,</b> |                  |
|--|---------------------|------------------|
|  | <u>2010</u>         | <u>2009</u>      |
| Life insurance reserves  | \$ 55,770           | \$ 53,621        |
| Annuity reserves and supplementary contracts with life contingencies | 18,153              | 17,017           |
| Accident and health reserves   | <u>2,311</u>        | <u>2,134</u>     |
| Total policy reserves  | 76,234              | 72,772           |
| Deposit funds  | 14,074              | 15,433           |
| Policy claims  | <u>601</u>          | <u>577</u>       |
| Total policy reserves, deposit funds and claim liabilities           | <u>\$ 90,909</u>    | <u>\$ 88,782</u> |

### Life Reserves

Reserves for life insurance policies are maintained principally using the 1941, 1958, 1980 and 2001 Commissioners' Standard Ordinary ("CSO") Mortality Tables under the net level premium method or the Commissioners' Reserve Valuation Method ("CRVM") with valuation interest rates ranging from 2.0% to 6.0%.

In 2009, after a review of actual term conversion and mortality experience, the Company updated conversion and related lapse assumptions and mortality assumptions utilized in the calculation of reserves. In addition, the valuation interest rate for converted policies was set equal to the current maximum rate rather than the rate at initial issuance of the converted policies. Upon approval by the NYSID, the Company released \$10 million of reserves, effective January 1, 2009. The positive surplus impact of the reserve decrease was recorded directly to surplus as a change in valuation basis in the accompanying Statutory Statements of Changes in Surplus.

Tabular Interest credited to policy reserves has been determined by formula as described in the NAIC instructions. The Tabular less Actual Reserve Released has been determined by formula as described in the NAIC instructions. The Tabular Cost for Individual Life Insurance for 7 Year Term, for certain Survivorship Whole Life policies, and for ancillary coverage has been determined by formula as described in the NAIC instructions. For all other coverages, including the bulk of Individual Life, the Tabular Cost has been determined from the basic data for the calculation of policy reserves.

The Company has established policy reserves (excluding the effects of reinsurance) on contracts issued January 1, 2001 and later that exceed the minimum amounts determined under Appendix A-820, "Minimum Life and Annuity Reserve Standards" of NAIC SAP by approximately \$672 million and \$671 million in 2010 and 2009, respectively. The change in direct reserves decreased pre-tax net gain for the years ended December 31, 2010 and 2009 by approximately \$2 million and \$28 million, respectively.

The Company waives deductions of deferred fractional premiums upon death of the insured and returns a portion of the final premium beyond the date of death. No surrender values are promised in excess of the total reserves. Certain substandard policies are valued on tables that are multiples of the standard table. Other substandard policies are valued as equivalent to standard lives on the basis of insurance age. Additional reserves are held on account of anticipated extra mortality for policies subject to extra premiums.

At December 31, 2010 and 2009, the Company had \$17,866 million and \$15,588 million, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of valuation set by the State of New York.

### **Annuity Reserves and Supplementary Contracts Involving Life Contingencies**

Reserves for supplementary contracts involving life contingencies and annuities involving current mortality risks are based principally on 1951, 1971, 1983 Group Annuity Mortality ("GAM"), 1960 Mod. a-49, 1971 Individual Annuity Mortality ("IAM"), 1983 Table A, A2000 and the Commissioners' Annuity Reserve Valuation Method ("CARVM") with assumed interest rates ranging from 2.5% to 11.25%. Generally, owners of annuities in payout status are not able to withdraw funds from their policies at their discretion.

### **Accident and Health Liabilities**

Reserves for accident and health policies are valued consistent with interest rate and morbidity tables, where applicable.

Claim reserves and unpaid claim liabilities (included in accident and health reserves and policy claims above) were \$1,276 million and \$1,221 million at December 31, 2010 and 2009, respectively. During 2010, \$131 million was paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years at December 31, 2010 were \$1,020 million as a result of re-estimation of unpaid claims and claim adjustment expenses principally on group medical,

disability income, medicare supplement insurance, and long term care lines of insurance. The \$70 million favorable prior-year development since December 31, 2009 to December 31, 2010 was generally the result of ongoing analysis of recent loss development trends. Original estimates were increased or decreased, as additional information became known regarding individual claims. The Company had no unfavorable prior year loss development on retrospectively rated policies included in this decrease. However, the business to which it relates is subject to premium adjustments.

The balance in the liability for unpaid accident and health claim adjustment expenses as of December 31, 2010 and 2009 was \$16 million and \$15 million, respectively. The Company incurred \$15 million and paid \$13 million of claim adjustment expenses in the current year, of which \$5 million of the paid amount was attributable to insured or covered events of prior years. The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses and did not reduce such liability in either 2010 or 2009.

### Deposit Funds

Deposit funds at December 31, 2010 and 2009 were as follows (in millions):

|   | <b>December 31,</b> |                  |
|---|---------------------|------------------|
|   | <b>2010</b>         | <b>2009</b>      |
| GICs  | \$ 11,504           | \$ 12,717        |
| Dividend accumulations of refunds and other deposit funds | 1,291               | 1,331            |
| Supplemental contracts without life contingencies         | 593                 | 622              |
| Special reserves on certain group policies                | 382                 | 388              |
| Annuities certain   | 304                 | 375              |
| Total deposit funds                                       | <u>\$ 14,074</u>    | <u>\$ 15,433</u> |

GICs without life contingencies (i.e. funding agreements) issued by the Company include funding agreements issued to special purpose entities (“SPEs”) and the Federal Home Loan Bank of New York (the “FHLB of NY”).

The SPEs purchase the funding agreements with the proceeds from medium term notes issued by the SPE, which have payment terms substantially identical to the funding agreements issued by the Company. At December 31, 2010 and 2009, the balance under funding agreements sold by the Company to the SPEs was \$9,670 million and \$8,509 million, respectively.

On February 26, 2008, the Company became a member of the FHLB of NY and began issuing funding agreements to the FHLB of NY in exchange for cash. The proceeds from the sale of these funding agreements are invested to earn a spread on the business. The funding agreements are issued through the general account and are included in the liability for deposit funds on the balance sheet. When a funding agreement is issued, the Company is required to post collateral in the form of eligible securities including mortgage-backed, government and agency debt instruments for each of the advances that are entered. Upon any event of default by the Company, the FHLB of NY’s recovery on the collateral is limited to the amount of the Company’s liability to the FHLB of NY. The amount of the Company’s liability for funding agreements with the FHLB of NY was \$1,502 million at December 31, 2010 and \$2,052 million at December 31, 2009. The fair value of collateral posted was \$2,529 million at December 31, 2010 and \$2,711 million at December 31, 2009. At December 31, 2010, the Company’s borrowing capacity with FHLB of NY was \$5,033 million of which \$1,502 million has been used. At December 31, 2009, the Company’s borrowing capacity with FHLB of NY was \$4,124 million of which \$2,052 million had been

used. At December 31, 2010 and 2009, the statement value of the Company's ownership in FHLB NY stock was \$121 million and \$129 million, respectively.

The weighted average interest rate was 3.00% and 2.95% at December 31, 2010 and 2009, respectively. The weighted average remaining maturity was 2 years, 10 months and 2 years, 9 months at December 31, 2010 and 2009, respectively. Withdrawal prior to maturity is generally not permitted.

### Withdrawal Characteristics of Annuity Reserves and Deposit Funds

The following table reflects the withdrawal characteristics of annuity reserves and deposit fund liabilities as of December 31, 2010 and 2009 (in millions):

|   | <u>2010</u>      |                   | <u>2009</u>      |                   |
|---|------------------|-------------------|------------------|-------------------|
|   | <u>Amount</u>    | <u>% of Total</u> | <u>Amount</u>    | <u>% of Total</u> |
| Subject to discretionary withdrawal:                |                  |                   |                  |                   |
| With market value adjustment                        | \$ 9,683         | 25%               | \$ 9,286         | 24%               |
| At market value                                     | <u>4,140</u>     | <u>10%</u>        | <u>2,693</u>     | <u>7%</u>         |
| Total with adjustment or at market value            | 13,823           | 35%               | 11,979           | 31%               |
| At book value without adjustment                    | 1,895            | 5%                | 1,965            | 5%                |
| Not subject to discretionary withdrawal provisions  | <u>23,577</u>    | <u>60%</u>        | <u>24,651</u>    | <u>64%</u>        |
| Total annuity reserves and deposit fund liabilities | <u>\$ 39,295</u> | <u>100%</u>       | <u>\$ 38,595</u> | <u>100%</u>       |

### Policies and Deposits with Surrender Privileges

At December 31, 2010, of the total direct life, accident and health and annuity reserves of \$71,673 million and deposit fund liabilities of \$13,692 million, the total amounts related to policies and deposits that have surrender privileges were \$55,785 million and \$1,884 million, respectively. Of these reserves, the amounts redeemable for cash to policyholders and depositors at December 31, 2010 were \$53,554 million and \$1,884 million, respectively.

At December 31, 2009, of the total direct life, accident and health and annuity reserves of \$68,149 million and deposit fund liabilities of \$15,041 million, the total amounts related to policies and deposits that have surrender privileges were \$52,792 million and \$1,949 million, respectively. Of these reserves, the amounts redeemable for cash to policyholders and depositors at December 31, 2009 were \$50,407 million and \$1,949 million, respectively.

## NOTE 9 – SEPARATE ACCOUNTS

### Separate Account Activity

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and/or transactions. For 2010, the Company reported separate account assets and liabilities from the following product lines/transactions:

Employee Benefit Plans (Group Annuity)  
Funding Agreements  
Supplemental Account

In accordance with the domiciliary state procedures for approving items within the separate account, the classification of the Separate Accounts listed above is subject to Section 4240 of the New York State Insurance Law. In addition, the Separate Accounts listed above are supported through affirmative approval of the plans of operations by the New York State Insurance Commissioner.

As of December 31, 2010 and 2009, the Company's separate account statement included legally insulated assets of \$7,461 million and \$6,492 million, respectively. The assets legally insulated from the general account as of December 31, 2010 are attributed to the following products/transactions (in millions):

| Product/Transaction                    | December 31, 2010        |   | December 31, 2009        |   |
|--|--------------------------|---|--------------------------|---|
|  | Legally Insulated Assets | Separate Account Assets (Not Legally Insulated) | Legally Insulated Assets | Separate Account Assets (Not Legally Insulated) |
| Employee Benefit Plans (Group Annuity) | \$ 7,162                 | \$ -  | \$ 6,492                 | \$ -  |
| Funding Agreements                     | 299                      | -   | -                        | -   |
| Supplemental Account                   | -                        | 6   | -                        | 116   |
| Total                                  | <u>\$ 7,461</u>          | <u>\$ 6</u>                                     | <u>\$ 6,492</u>          | <u>\$ 116</u>                                   |

At December 31, 2010, there were no separate account securities lending arrangements.

### Guaranteed Separate Accounts

The Company currently maintains guaranteed separate accounts with assets of \$4,475 million and \$4,236 million at December 31, 2010 and 2009, respectively. Of these amounts, \$6 million and \$116 million were maintained each year in supplemental separate accounts at December 31, 2010 and 2009, respectively. The Company has market value separate accounts and separate accounts maintained on a book value basis where assets are carried at amortized cost. These assets are invested primarily in investment grade mortgage-backed securities and short-term securities. The supplemental separate account assets are used to fund the excess of the actuarial liability for future guaranteed payments over the market value of the assets for these contracts.

Market value separate accounts funding guaranteed benefits provide either a guarantee tied to an index or a guarantee of principal and interest. For accounts where the guarantee is tied to an index, at contract discontinuance, the contract holder is entitled to the guaranteed amount plus one-half of the excess performance. If the market value of the assets is less than the guaranteed amount, the contract holder is entitled to an immediate payout of market value, or an installment payout of the guaranteed amount. For



the market value separate accounts that provide a minimum guaranteed interest rate, at contract discontinuance, the contract holder is entitled to an immediate payout of market value, or an installment payout of the guaranteed amount.

A book value separate account guarantees principal and interest. At contract discontinuance, the contract holder is entitled to the guaranteed amount, if the market value of the assets exceeds the guaranteed amount. If the market value of the assets is less than the guaranteed amount, the contract holder is entitled to an immediate payout of market value, or an installment payout of the guaranteed amount.

Certain guaranteed market value separate accounts are tied to an index, if the return on the contract exceeds the index; the contract holder shares the excess performance equally with the Company. The excess performance is retained in the Separate Accounts, until the contract is terminated, and the Company reflects the amount in surplus. For both years ended December 31, 2010 and 2009, the Company reflected changes of \$2 million related to undistributed gains and losses on these contracts in "Other adjustments, net", in the accompanying Statutory Statements of Changes in Surplus.

As of December 31, 2010, the general account of the Company did not have a maximum guarantee for separate account liabilities. To compensate the general account for the risk taken for minimum guarantees in certain contracts, the separate account has paid risk charges of \$7 million for the year ended December 31, 2010.

As of December 31, 2010, the general account of the Company did not make any payments toward separate account guarantees.

#### **Non-Guaranteed Separate Accounts**

The Company currently maintains non-guaranteed separate accounts with assets of \$2,992 million and \$2,372 million at December 31, 2010 and 2009, respectively. These separate accounts primarily include the Company's retirement and pension plans assets and are invested in common stock, long-term bonds, limited partnerships and short-term securities.

Separate accounts funding non-guaranteed benefits provide no guarantee of principal or interest, and payout is at market value at contract discontinuance.

Information regarding separate accounts of the Company for the years ended December 31, 2010 and 2009 is as follows (in millions):

|                                | <b>2010</b>    |  |   |   | <b>Total</b>    |
|--------------------------------|----------------|--|---|---|-----------------|
|                                | <b>Indexed</b> | <b>Non-indexed<br/>Guarantee<br/>Less than/Equal<br/>to 4%</b> | <b>Non-indexed<br/>Guarantee<br/>More<br/>than 4%</b> | <b>Non-guaranteed<br/>Separate<br/>Accounts</b> |                 |
| Premiums and considerations    | \$ -           | \$ 1,680   | \$ -  | \$ 109  | \$ 1,789        |
| Reserves:                      |                |  |   |   |                 |
| For accounts with assets at:   |                |  |   |   |                 |
| Market value                   | \$ 226         | \$ 934   | \$ -  | \$ 2,980  | \$ 4,140        |
| Amortized cost                 | -              | 3,317  | -   | -   | 3,317           |
| Total reserves                 | <u>\$ 226</u>  | <u>\$ 4,251</u>  | <u>\$ -</u>   | <u>\$ 2,980</u>                                 | <u>\$ 7,457</u> |
| By withdrawal characteristics: |                |  |   |   |                 |
| With market value adjustment   | \$ -           | \$ 3,317   | \$ -  | \$ -  | \$ 3,317        |
| At market value                | 226            | 934  | -   | 2,980   | 4,140           |
| Total reserves                 | <u>\$ 226</u>  | <u>\$ 4,251</u>  | <u>\$ -</u>   | <u>\$ 2,980</u>                                 | <u>\$ 7,457</u> |
|                                |                |  |   |   |                 |
|                                | <b>2009</b>    |  |   |   |                 |
|                                | <b>Indexed</b> | <b>Non-indexed<br/>Guarantee<br/>Less than/Equal<br/>to 4%</b> | <b>Non-indexed<br/>Guarantee<br/>More<br/>than 4%</b> | <b>Non-guaranteed<br/>Separate<br/>Accounts</b> | <b>Total</b>    |
| Premiums and considerations    | \$ -           | \$ 1,233   | \$ -  | \$ 79   | \$ 1,312        |
| Reserves:                      |                |  |   |   |                 |
| For accounts with assets at:   |                |  |   |   |                 |
| Market value                   | \$ 227         | \$ 111   | \$ -  | \$ 2,354  | \$ 2,692        |
| Amortized cost                 | -              | 3,845  | -   | -   | 3,845           |
| Total reserves                 | <u>\$ 227</u>  | <u>\$ 3,956</u>  | <u>\$ -</u>   | <u>\$ 2,354</u>                                 | <u>\$ 6,537</u> |
| By withdrawal characteristics: |                |  |   |   |                 |
| With market value adjustment   | \$ -           | \$ 3,845   | \$ -  | \$ -  | \$ 3,845        |
| At market value                | 227            | 111  | -   | 2,354   | 2,692           |
| Total reserves                 | <u>\$ 227</u>  | <u>\$ 3,956</u>  | <u>\$ -</u>   | <u>\$ 2,354</u>                                 | <u>\$ 6,537</u> |

The following is a reconciliation of net transfers to or (from) the Company to the separate accounts (in millions):

|   | <u>2010</u>   | <u>2009</u>   |
|---|---------------|---------------|
| Transfers as reported in the Separate Accounts Statement: |               |               |
| Transfers to Separate Accounts                            | \$ 1,489      | \$ 1,312      |
| Transfers from Separate Accounts                          | (1,396)       | (1,155)       |
| Reinsurance Assumed                                       | <u>7</u>      | <u>1</u>      |
| Net transfers to the Separate Accounts                    | <u>\$ 100</u> | <u>\$ 158</u> |

## NOTE 10 – INCOME TAXES

Significant components of the current federal income tax expense (benefit) incurred for the years ended December 31, 2010 and 2009 were as follows (in millions):

|   | <u>December 31, 2010</u> | <u>December 31, 2009</u> | <u>Change</u> |
|---|--------------------------|--------------------------|---------------|
| Income tax incurred   |                          |                          |               |
| Current year U.S. income tax expense <sup>1</sup>               | \$ 9                     | \$ 102                   | \$ (93)       |
| Current year foreign income tax expense                         | <u>6</u>                 | <u>3</u>                 | <u>3</u>      |
| Current year income tax incurred                                | 15                       | 105                      | (90)          |
| U.S. federal capital gains tax benefit                          | <u>(6)</u>               | <u>(215)</u>             | <u>209</u>    |
| Total federal and foreign income tax expense/(benefit) incurred | <u>\$ 9</u>              | <u>\$ (110)</u>          | <u>\$ 119</u> |

<sup>1</sup> The Company had investment tax credits of \$65 million and \$54 million for the years ended December 31, 2010 and 2009, respectively.

The components of the net DTA were as follows (in millions):

|   | <u>December 31, 2010</u> |                 |                 | <u>December 31, 2009</u> |                |                 | <u>Change</u>   |                 |              |
|---|--------------------------|-----------------|-----------------|--------------------------|----------------|-----------------|-----------------|-----------------|--------------|
|   | <u>Ordinary</u>          | <u>Capital</u>  | <u>Total</u>    | <u>Ordinary</u>          | <u>Capital</u> | <u>Total</u>    | <u>Ordinary</u> | <u>Capital</u>  | <u>Total</u> |
| Gross DTAs                              | \$ 2,455                 | \$ 766          | \$ 3,221        | \$ 2,424                 | \$ 823         | \$ 3,247        | \$ 31           | \$ (57)         | \$ (26)      |
| Statutory valuation allowance           | <u>-</u>                 | <u>-</u>        | <u>-</u>        | <u>-</u>                 | <u>-</u>       | <u>-</u>        | <u>-</u>        | <u>-</u>        | <u>-</u>     |
| Adjusted gross DTA                      | 2,455                    | 766             | 3,221           | 2,424                    | 823            | 3,247           | 31              | (57)            | (26)         |
| Gross DTL                               | <u>803</u>               | <u>888</u>      | <u>1,691</u>    | <u>926</u>               | <u>607</u>     | <u>1,533</u>    | <u>(123)</u>    | <u>281</u>      | <u>158</u>   |
| Net DTA/(DTL) before admissibility test | 1,652                    | (122)           | 1,530           | 1,498                    | 216            | 1,714           | 154             | (338)           | (184)        |
| Nonadmitted DTA                         | <u>309</u>               | <u>-</u>        | <u>309</u>      | <u>465</u>               | <u>64</u>      | <u>529</u>      | <u>(156)</u>    | <u>(64)</u>     | <u>(220)</u> |
| Net admitted DTA/(DTL)                  | <u>\$ 1,343</u>          | <u>\$ (122)</u> | <u>\$ 1,221</u> | <u>\$ 1,033</u>          | <u>\$ 152</u>  | <u>\$ 1,185</u> | <u>\$ 310</u>   | <u>\$ (274)</u> | <u>\$ 36</u> |

Net deferred tax assets are non-admitted primarily because they are not expected to be realized within three years of the balance sheet date. The admitted portion of the net deferred tax asset is included in “Other Assets” in the accompanying Statutory Statements of Financial Position. The Company elected to admit DTAs pursuant to paragraph 10.e of SSAP 10R for December 31, 2010 and 2009.

The admission calculation components are as follows (paragraph references throughout Note 10 are to paragraphs of SSAP 10R) (in millions):

|  | December 31, 2010 |          |          | December 31, 2009 |         |          | Change   |          |          |
|--|-------------------|----------|----------|-------------------|---------|----------|----------|----------|----------|
|  | Ordinary          | Capital  | Total    | Ordinary          | Capital | Total    | Ordinary | Capital  | Total    |
| Admitted pursuant to Paragraph 10.a  | \$ -              | \$ -     | \$ -     | \$ 264            | \$ 77   | \$ 341   | \$ (264) | \$ (77)  | \$ (341) |
| Paragraph 10.b.i   | 564               | 127      | 691      | 329               | -       | 329      | 235      | 127      | 362      |
| Paragraph 10.b.ii  | N/A               | N/A      | 1,310    | N/A               | N/A     | 1,220    | N/A      | N/A      | 90       |
| Admitted pursuant to Paragraph 10.b (lesser of 10.b.i or 10.b.ii)                    | 564               | 127      | 691      | 329               | -       | 329      | 235      | 127      | 362      |
| Admitted pursuant to Paragraph 10.c  | 1,052             | 639      | 1,691    | 926               | 607     | 1,533    | 126      | 32       | 158      |
| Total admitted pursuant to Paragraph 10.a, 10.b, 10.c                                | 1,616             | 766      | 2,382    | 1,519             | 684     | 2,203    | 97       | 82       | 179      |
| Additional admitted pursuant to Paragraph 10.e.i                                     | -                 | -        | -        | -                 | -       | -        | -        | -        | -        |
| Paragraph 10.e.ii.a  | 411               | 119      | 530      | 439               | 75      | 514      | (28)     | 44       | 16       |
| Paragraph 10.e.ii.b  | N/A               | N/A      | 1,965    | N/A               | N/A     | 1,829    | N/A      | N/A      | 136      |
| Additional admitted pursuant to Paragraph 10.e.ii (lesser of 10.e.ii.a or 10.e.ii.b) | 411               | 119      | 530      | 439               | 75      | 514      | (28)     | 44       | 16       |
| Additional admitted pursuant to Paragraph 10.e.iii                                   | 119               | (119)    | -        | -                 | -       | -        | 119      | (119)    | -        |
| Total admitted pursuant to Paragraph 10.e.i, 10.e.ii, 10.e.iii                       | \$ 530            | \$ -     | \$ 530   | \$ 439            | \$ 75   | \$ 514   | \$ 91    | \$ (75)  | \$ 16    |
| Total admitted DTA   | 2,146             | 766      | 2,912    | 1,958             | 760     | 2,718    | 188      | 6        | 194      |
| Total DTL  | 803               | 888      | 1,691    | 926               | 607     | 1,533    | (123)    | 281      | 158      |
| Net admitted DTA/(DTL)   | \$ 1,343          | \$ (122) | \$ 1,221 | \$ 1,032          | \$ 153  | \$ 1,185 | \$ 311   | \$ (275) | \$ 36    |
| Nonadmitted DTA  | \$ 309            | \$ -     | \$ 309   | \$ 465            | \$ 64   | \$ 529   | \$ (156) | \$ (64)  | \$ (220) |

The components of the RBC calculation were as follows (in millions):

|                                      | Paragraph<br>10.a, 10.b, 10.c | Paragraph<br>10.e | Difference |
|--------------------------------------|-------------------------------|-------------------|------------|
| Admitted DTAs                        | \$ 691                        | \$ 1,221          | \$ 530     |
| Admitted Assets                      | \$ 121,321                    | \$ 122,008        | \$ 687     |
| Adjusted Statutory Surplus           | \$ 14,030                     | \$ 14,717         | \$ 687     |
| Total Adjusted Capital               | \$ 16,751                     | \$ 17,438         | \$ 687     |
| Authorized control level used in 10d | \$ 1,910                      | \$ 1,927          | \$ 17      |

The Company had no impact on adjusted gross and net admitted DTAs due to tax planning strategies for December 31, 2010 and 2009.

The Company had no unrecognized deferred tax liabilities for December 31, 2010 and 2009. At December 31, 2010, the Company had no adjustments of a DTA or DTL for enacted changes in tax laws or rates, or a change in tax status. Additionally, the Company had no adjustments to gross DTAs because of a change in circumstances that causes a change in judgment about the realizability of the related DTAs.

The tax effects of temporary differences that give rise to DTAs and DTLs were as follows (in millions):

| DTAs   |                          |                          |               |
|--|--------------------------|--------------------------|---------------|
| Ordinary   | <u>December 31, 2010</u> | <u>December 31, 2009</u> | <u>Change</u> |
| Policyholder reserves  | \$ 614                   | \$ 645                   | \$ (31)       |
| Deferred acquisition costs   | 554                      | 519                      | 35            |
| Pension accrual  | 362                      | 472                      | (110)         |
| Policyholder dividends accrual   | 359                      | 323                      | 36            |
| Compensation and benefits accrual  | 327                      | 289                      | 38            |
| Fixed assets   | 83                       | 25                       | 58            |
| Receivables - nonadmitted  | 71                       | 29                       | 42            |
| Investments  | 10                       | 12                       | (2)           |
| Unearned premium reserve   | 3                        | -                        | 3             |
| Other  | 72                       | 110                      | (38)          |
| Subtotal   | <u>2,455</u>             | <u>2,424</u>             | <u>31</u>     |
| Nonadmitted  | <u>309</u>               | <u>465</u>               | <u>(156)</u>  |
| Admitted ordinary DTA  | <u>2,146</u>             | <u>1,959</u>             | <u>187</u>    |
| Capital  |                          |                          |               |
| Investments  | 765                      | 823                      | (58)          |
| Real estate  | 1                        | -                        | 1             |
| Subtotal   | <u>766</u>               | <u>823</u>               | <u>(57)</u>   |
| Nonadmitted  | <u>-</u>                 | <u>64</u>                | <u>(64)</u>   |
| Admitted capital DTAs  | <u>766</u>               | <u>759</u>               | <u>7</u>      |
| Total admitted DTAs  | <u>2,912</u>             | <u>2,718</u>             | <u>194</u>    |
| DTLs   |                          |                          |               |
| Ordinary   |                          |                          |               |
| Deferred and uncollected premium   | 433                      | 457                      | (24)          |
| Investments  | 287                      | 397                      | (110)         |
| Fixed assets   | 68                       | -                        | 68            |
| Policyholder reserves  | 7                        | 4                        | 3             |
| Other  | 8                        | 68                       | (60)          |
| Subtotal   | <u>803</u>               | <u>926</u>               | <u>(123)</u>  |
| Capital  |                          |                          |               |
| Investments  | 744                      | 607                      | 137           |
| Real estate  | 144                      | -                        | 144           |
| Subtotal   | <u>888</u>               | <u>607</u>               | <u>281</u>    |
| Total DTLs   | <u>1,691</u>             | <u>1,533</u>             | <u>158</u>    |
| Net admitted DTA/(DTL)   | <u>\$ 1,221</u>          | <u>\$ 1,185</u>          | <u>\$ 36</u>  |
| Deferred income tax (expense)/benefit on change in net unrealized capital gains and losses |                          |                          | \$ (178)      |
| Increase in net DTA related to other items   |                          |                          | 16            |
| Decrease in net DTA booked in aggregate write-ins for gains and losses in surplus          |                          |                          | (22)          |
| Decrease in DTA nonadmitted  |                          |                          | 220           |
| Total increase in net admitted DTA   |                          |                          | <u>\$ 36</u>  |

The Company's income tax expense (benefit) for the years ended December 31, 2010 and 2009 differs from the amount obtained by applying the statutory rate of 35% to net gain from operations after dividends to policyholders and before federal income taxes for the following reasons (in millions):

|  | <u>2010</u>  | <u>2009</u>     |
|--|--------------|-----------------|
| Net gain from operations after dividends to policyholders and before federal income taxes at 35% | \$ 273       | \$ 314          |
| Net realized capital (losses) gains at 35%   | (35)         | (156)           |
| Tax exempt income  | (55)         | (58)            |
| Tax credits (net of withholding)   | (67)         | (57)            |
| Amortization of IMR  | (20)         | (9)             |
| Dividends from subsidiaries  | -            | (85)            |
| Contiguous country branch income   | (4)          | (4)             |
| Change in reserve on account of change in valuation basis  | -            | 3               |
| Prior year audit liability and settlement  | (19)         | 5               |
| Non-admitted assets  | (170)        | (2)             |
| Accruals in surplus  | 104          | (169)           |
| Other  | 8            | 7               |
| Income tax expense (benefit) incurred and change in net DTA during period                        | <u>\$ 15</u> | <u>\$ (211)</u> |
| Federal income taxes reported in the Summary of Operations                                       | \$ 15        | \$ 105          |
| Capital gains tax benefits incurred  | (6)          | (215)           |
| Change in net deferred income taxes  | <u>6</u>     | <u>(101)</u>    |
| Total statutory income tax expense (benefit)   | <u>\$ 15</u> | <u>\$ (211)</u> |

The Company's federal income tax returns are routinely audited by the Internal Revenue Service ("IRS") and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 2004 and is currently auditing tax years 2005 through 2007. There were no material effects on the Company's Statutory Statements of Operations as a result of these audits. The Company believes that its recorded income tax liabilities are adequate for all open years.

The Company did not have any operating loss and tax credit carry forwards available for tax purposes. The Company has no income taxes incurred that will be available for recoupment in the event of future net losses for years ending December 31, 2010, 2009, and 2008.

The Company's total interest expense associated with the liability for unrecognized tax benefits for the years ended December 31, 2010 and 2009 aggregated \$(48) million and \$7 million, respectively, and was included in income tax expense (benefit) in the accompanying Statutory Statements of Operations. At December 31, 2010 and 2009, the Company had \$11 million and \$59 million, respectively, of accrued interest associated with the liability for unrecognized tax benefits, which was reported on the accompanying Statutory Statements of Financial Position (included in other liabilities). The \$(48) million decrease from December 31, 2009 in accrued interest associated with the liability for unrecognized tax benefits was the result of an increase of \$2 million of interest expense and a \$(50) million decrease resulting from settlements with tax authorities. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

As discussed in Note 2 – Significant Accounting Policies - Federal Income Taxes, the Company’s federal income tax return is consolidated with NYLIAC, NYLAZ, NYLIFE LLC, NYLI and New York Life Investments.

At December 31, 2010 and 2009, the Company recorded a current income tax receivable of \$58 million and \$121 million, respectively. The current income tax receivables were included in “Other Assets” in the accompanying Statutory Statements of Financial Position.

At December 31, 2010, the Company had no protective tax deposits on deposit with the Internal Revenue Service under Section 6603 of the Internal Revenue Service Code.

#### **NOTE 11 – REINSURANCE**

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk and to be able to issue life insurance policies in excess of its retention limits. Currently the Company reinsures the mortality risk on new life insurance policies on a quota-share yearly renewable term (“YRT”) basis for all products except on its participating whole life products. Up until late 2004, the Company typically retained 10% of each risk on its individual life insurance policies, and varying retention amounts ranging from 30% to 50% on select group life insurance cases and product lines. Starting in late 2004, the Company began to retain a higher share on certain individual life products, with the quota share ranging from 10% up to 60% and a minimum size policy ceded of \$1 million. Most of the reinsured business is on an automatic basis. Cases in excess of the Company’s retention and certain substandard cases are reinsured facultatively. Generally, the Company does not have any individual life or group reinsurance agreements that do not transfer risk or contain risk limiting features.

Life insurance reinsured was 14% of total life insurance inforce at December 31, 2010 and 2009. The reserve reductions taken for life insurance reinsured at December 31, 2010 and 2009 were \$338 million and \$312 million, respectively.

At December 31, 2008, the Company assumed 90% of a block of inforce life insurance business under a coinsurance with funds withheld treaty from its indirect subsidiary, Hong Kong Worldwide (“Hong Kong”). A total reserve of \$79 million consisting of whole life products was assumed under a coinsurance with funds withheld treaty. Under the Funds Withheld treaty, Hong Kong retained \$71 million in assets for funds withheld in relation to the reserves and the Company established \$8 million in deficiency reserves. At the inception of the treaty, the Company incurred a \$14 million ceding commission to Hong Kong. At December 31, 2010 and 2009, the Company assumed reserves under coinsurance with funds withheld of \$100 million and \$90 million, respectively.

In December 2004, the Company assumed 90% of a block of inforce life insurance business from its wholly-owned subsidiary, NYLIAC. A total reserve of \$5,656 million consisting of Universal Life, Variable Universal Life, Target Life and Asset Preserver products was assumed using a combination of coinsurance with funds withheld for the fixed portion maintained in the General Account and modified coinsurance (“MODCO”) for policies in the Separate Accounts. Under both the MODCO and Funds Withheld treaties, NYLIAC retains the assets held in relation to the reserves. A \$25 million ceding commission was paid by the Company at the inception of the treaty. An experience refund will be paid to NYLIAC at the end of each accounting period for 100% of profits in excess of \$5 million. Experience refunds paid in 2010 and 2009 were \$129 million and \$96 million, respectively. At December 31, 2010 and 2009, the Company assumed reserves under coinsurance with funds withheld and MODCO of \$5,990 million and \$5,968 million, respectively.

On January 19, 2000, the Company entered into a modified coinsurance reinsurance agreement with Paul Revere Life Insurance Company (“Paul Revere”) whereby Paul Revere reinsures 100% of the Company’s individual disability income business with an effective date of January 1, 2000. The Company received consideration of \$88 million, resulting in a deferred gain of \$54 million after tax that is amortized into net gain over a twenty-year period. During 2010 and 2009, \$3 million was amortized each year into net gain leaving \$22 million at December 31, 2010 to be amortized in future years.

The Company has reinsurance agreements with NYLARC. NYLARC is a life insurance company wholly owned by NYLARC Holding Company, Inc., whose shareholders consist of the Company’s top agents who meet certain criteria and who may also be agents of NYLIAC or NYLAZ. NYLARC reinsures a portion of certain life insurance products sold by its shareholders. NYLARC’s purpose is to retain high production agents, and increase the volume and quality of the business that they submit to the Company, NYLIAC and NYLAZ.

The Company had reinsured certain policies with unauthorized companies that prevent it from recognizing full reinsurance credit. Since these reinsurers are not recognized in the State of New York, and the receivable owed to the Company is not secured by cash, securities or other permissible collateral, the Company established a liability equal to the net credit received. At December 31, 2010 and 2009, less than \$1 million was held as a liability to offset the net reinsurance credit. The change in the liability is reflected as a direct adjustment to surplus and totaled less than \$1 million for both years ended December 31, 2010 and 2009.

## **NOTE 12 – SURPLUS**

### **Surplus Notes**

On October 8, 2009, the Company issued Surplus Notes (“2009 Notes”) with a principal balance of \$1 billion, bearing interest at 6.75%, and with a maturity date of November 15, 2039. Proceeds from the issuance of the 2009 Notes were \$998 million, net of discount. The 2009 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by Citibank, as registrar/paying agent. Interest on the 2009 Notes is paid semi-annually on May 15<sup>th</sup> and November 15<sup>th</sup> of each year. Cumulative interest paid through December 31, 2010 totaled \$74 million.

On May 5, 2003, the Company issued Surplus Notes (“2003 Notes”) with a principal balance of \$1 billion, bearing interest at 5.875%, and with a maturity date of May 15, 2033. Proceeds from the issuance of the 2003 Notes were \$990 million, net of discount. The 2003 Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by Citibank, as registrar/paying agent. Interest on the 2003 Notes is paid semi-annually on May 15<sup>th</sup> and November 15<sup>th</sup> of each year. Cumulative interest paid through December 31, 2010 totaled \$442 million.

As part of the 2003 Notes offering, the NYSID required the Company to establish a special reserve in the amount of 10% of the face amount of the 2003 Notes, or \$100 million. This reserve was required for the payment of post closing amounts, including any amounts the Company may have to pay as a result of its agreement to indemnify the underwriters for certain potential claims arising out of the issuance of the 2003 Notes. As allowed by NYSID, the reserve was reduced in equal increments of 1/9 of the initial reserve amount, or \$11 million, on May 15, 2006, May 15, 2007 and May 15, 2008, with the remaining reserve of \$67 million released on May 15, 2009 because there had been no claims. This was reflected as an increase to surplus.

The 2009 Notes and the 2003 Notes (collectively the “Notes”) are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New



York State 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, which the Superintendent determines to be available for such payments under New York State Insurance Law. Provided that approval is granted by the Superintendent, the Notes may be redeemed at the option of the Company at any time at the “make-whole” redemption price equal to the greater of: (i) the principal amount of the Notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled interest and principal payments on the notes to be redeemed, excluding accrued interest as of the date on which the Notes are to be redeemed, discounted on a semi-annual basis at an adjusted treasury rate plus 20 and 40 basis points, respectively, plus in each case, the accrued interest on the notes to be redeemed to the redemption date.

At December 31, 2010 and 2009, there were no affiliates that held more than 10% of the Notes. At December 31, 2010, State Street Bank & Trust Co, Bank of New York Mellon, JP Morgan Chase Bank and Citibank were each the holder of record at The Depository Trust Company of more than 10% of the outstanding amount of the Notes, with each holding Notes, at least in part, for the accounts of their respective clients.

### Other Surplus Adjustments

Other increases or (decreases) in the Statutory Statements of Changes in Surplus include the effects of the following (in millions):

|  | <u>2010</u>   | <u>2009</u>     |
|--|---------------|-----------------|
| Additional minimum pension liability – Note 13 | \$ 338        | \$ (550)        |
| Separate account surplus – Note 9              | 2             | 2               |
| Special reserves for group life - Note 8       | (1)           | 6               |
| Regulation 128 reserve – Note 8                | (3)           | (1)             |
| Ceding commission – Note 11                    | (3)           | (3)             |
| Intangible asset – Note 13                     | <u>(26)</u>   | <u>30</u>       |
| Total  | <u>\$ 307</u> | <u>\$ (516)</u> |

Cumulative unrealized gains/(losses), gross of deferred taxes, recognized in unassigned surplus were \$555 million and \$(989) million as of December 31, 2010 and 2009, respectively.

### Nonadmitted Assets

Under statutory accounting rules, a nonadmitted asset is defined as an asset having economic value other than that which can be used to fulfill policyholder obligations, or those assets that are unavailable due to encumbrances or other third party interests. These assets are not recognized in the Statutory Statements of Financial Position, and are, therefore, considered nonadmitted. The changes between years in nonadmitted assets are charged or credited directly to surplus.

The following table shows the major categories of assets that are nonadmitted at December 31, 2010 and 2009, respectively (in millions):

|                              | <u>2010</u>     | <u>2009</u>     | <u>Increase<br/>(Decrease)</u> |
|------------------------------|-----------------|-----------------|--------------------------------|
| Overfunded pension asset     | \$ 1,111        | \$ 671          | \$ 440                         |
| Net deferred tax asset       | 309             | 529             | (220) *                        |
| Furniture, equipment and EDP | 232             | 214             | 18                             |
| Invested assets              | 171             | 149             | 22                             |
| Other                        | 118             | 113             | 5                              |
| Total                        | <u>\$ 1,941</u> | <u>\$ 1,676</u> | <u>\$ 265</u>                  |

\*\$16 million of this change is due to the adoption of SSAP 10R, which is reported as a separate item in the Statutory Statements of Changes in Surplus. Please see Note 1 – Changes in Accounting Principles.

## **NOTE 13 – BENEFIT PLANS**

### **Defined Benefit Plans**

The Company maintains the New York Life Insurance Company Pension Plan (the “Pension Plan”). The Pension Plan is a tax-qualified defined benefit pension plan covering substantially all eligible full-time and part-time employees of the Company and certain eligible employees of subsidiaries that adopt the Pension Plan. Agents are not eligible for benefits under the Pension Plan.

Pension Plan participants are entitled to annual pension benefits beginning at normal retirement date (generally, the first day of the month following the later of attainment of age 65 or the completion of 5 years of vesting service), equal to a percentage of their final average salary (average monthly salary for the highest paid 60 consecutive months of the last 120 months the participant is employed by the Company), less a social security offset for each active participant in the Pension Plan as of December 31, 1988. For benefits accrued on or after January 1, 2004 the accrual percentage of final average salary used to determine benefits was amended from 1.65% to 1.45%. The Company also maintains the New York Life Excess Benefit Plan, which is a nonqualified, unfunded arrangement, which provides benefits in excess of the maximum benefits that may be paid or accrued under the Pension Plan due to applicable IRS limits. The New York Life Excess Benefit Plan was amended and restated to comply with Internal Revenue Code (“IRC”) Section 409A.

The Company also maintains the NYLIC Retirement Plan (“Retirement Plan”). The Retirement Plan is a qualified defined benefit pension plan covering substantially all eligible agents under contract with the Company or its domestic life insurance subsidiaries on or after January 1, 1982, the effective date of the Plan. Employees who are not life insurance agents are not eligible for benefits under the Retirement Plan.

Retirement Plan participants are entitled to annual pension benefits beginning at normal retirement date (generally, the first day of the month following the later of attainment of age 65 or the completion of 5 years of vesting service). In general, the benefit is based on the agent’s Frozen Accrued Benefit, if applicable, and his/her Earnings-Related Benefit Accruals (“ERBA”). The Frozen Accrued Benefit is the amount accrued as of December 31, 1990, for service, if any, on or prior to that date under the production-related benefit formula. For periods of service after December 31, 1990, the agent’s ERBA is calculated by multiplying the sum of his/her Pensionable Earnings credited after 1990 by 2.75%. In addition, the Retirement Plan also pays amounts to certain eligible agents whose retirement benefit under the Retirement Plan is less than their Senior NYLIC Income (i.e. compensation under certain agents’ contracts for agents who have completed 20 NYLIC years) so that their total retirement benefit under the

Retirement Plan is equivalent to their Senior NYLIC Income. The Company also maintains the NYLIC 415 and 401(a)(17) Excess Benefit Plan, which is a nonqualified, unfunded arrangement, which provides benefits in excess of the maximum benefits that may be paid or accrued under the Retirement Plan due to applicable IRS limits. The NYLIC 415 and 401(a) (17) Excess Benefit Plan was amended and restated to comply with the IRC Section 409A.

The Pension Plan and the Retirement Plan are funded solely by Company contributions. The Company's funding policy for each of these Plans is to make annual contributions that are no less than the minimum amount needed to comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the IRC, and no greater than the maximum amount deductible for federal income tax purposes. In 2010, the Company made voluntary contributions to the Pension Plan and the Retirement Plan of \$260 million and \$290 million, respectively. The Company made no contributions to either the Pension Plan or Retirement Plan in 2009.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts issued to each Plan. Each Plan currently invests in two group annuity contracts: one contract is an immediate participation guarantee contract relating to the Company's general account ("GA Contract"), and the other contract relates to pooled separate accounts ("SA Contract"). Each Plan's investments in the GA Contract and the SA Contract are held in the separate trust established under each Plan. Pension Plan assets of \$2,739 million and \$2,128 million were included in the Company's separate account assets and liabilities as of December 31, 2010 and 2009, respectively. Pension Plan assets of \$1,147 million and \$1,004 million were included in the Company's aggregate reserve liability as of December 31, 2010 and 2009, respectively.

The Company is the issuer of the GA and SA Contracts and NYLIM is the investment manager of the pooled separate accounts under the SA Contract and affiliates of NYLIM act as sub-advisors of some of the pooled separate accounts under the SA Contract. The GA Contract provides for the payment of an annual administrative charge based on a percentage of the assets maintained in the fixed account under the contract. The SA Contract provides for the payment of separate annual fees for the management of each separate account.

### **Grantor Trusts**

The Company has established separate irrevocable grantor trusts covering certain of the Company's separate nonqualified arrangements for employees and agents to help protect nonqualified payments there under in the event of a change in control of the Company. The grantor trusts are not subject to ERISA.

### **Other Postretirement Benefits**

The Company's Group Plan for New York Life Employees (covering eligible employees of the Company and certain eligible employees of subsidiaries that adopt the Group Plan) provides certain health and life insurance benefits for eligible retired employees and their eligible dependents. Employees who retired prior to January 1, 1993 do not make contributions toward retiree health and life coverage. Employees who retired on or after January 1, 1993 may be required to contribute towards medical coverage (other than certain prescription drug coverage) and dental coverage.

The Company's Group Plan for New York Life Agents provides certain health and life insurance benefits for eligible retired agents and their eligible dependents. The Company pays the entire non-contributory and contributory life insurance costs for retired agents. For active agents, the contribution towards contributory life insurance is based on the agent class (current, first prior, second prior, third prior or established), age, and level of benefits and location of residence. The Company also provides monthly

installment life insurance benefits payable to the beneficiary of eligible retired or inactive agents who have completed 20 or more years of service.

Eligible Agents who retired under the Retirement Plan prior to January 1, 1993 and agents who retired under the Retirement Plan after December 31, 1992 but either had completed 30 or more years of service or attained at least age 70 as of that date, are not required to make contributions for health care coverage. Eligible Agents who retire on or after January 1, 1993, but did not have 30 or more years of service with the Company as of December 31, 1992 may be required to contribute towards medical coverage (other than certain prescription drug coverage) and dental coverage.

The Company has established a Voluntary Employees Beneficiary Association Trust (“VEBA Trust”) in connection with medical and life benefits for eligible retired employees (“Retired Employee VEBA Trust”) and a VEBA Trust in connection with medical and life benefits for eligible retired agents (“Retired Agent VEBA Trust”; the “Retired Employee VEBA Trust” and the “Retired Agent VEBA Trust” are collectively referred to as the “VEBA Trusts”). A portion of the cost of the medical coverage (other than certain prescription drug coverage), dental coverage and life premiums for eligible retired individuals and their eligible dependents is paid by a combination of the VEBA Trusts’ assets and contributions by the eligible retired individuals. The remaining balance of these costs is paid by the Company.

It has been the Company's practice to prefund postretirement benefits to the extent allowable for federal income tax purposes. Prefunding contributions are made to the VEBA Trusts, which are used to partially fund postretirement health and life benefits other than pensions. Prefunding contributions to the Retired Employee VEBA Trust totaling \$3 million were made in both 2010 and 2009. Prefunding contributions to the Retired Agent VEBA Trust totaling \$1 million and less than \$1 million were made in 2010 and 2009, respectively.

The assets of each VEBA Trust are invested in the mutual funds issued by the MainStay Group of Funds (which is an indirect subsidiary of the Company), in Trust Owned Life Insurance (“TOLI”) and in government securities. These TOLI policies are Corporate Sponsored Universal Life (“CSUL”) and Corporate Sponsored Variable Universal Life (“CSVUL”) policies issued by NYLIAC. CSVUL policy premiums are invested in variable products of mutual funds for which NYLIM serves as investment advisor. VEBA Trust assets of \$155 million and \$144 million are included in the Company’s separate account assets and liabilities as of December 31, 2010 and 2009, respectively. VEBA Trust assets of \$150 million and \$146 million are included in the Company’s aggregate reserve liability as of December 31, 2010 and 2009, respectively.

The Company shares the cost of certain postretirement life and health benefits for retired employees and agents including their eligible dependents with its subsidiaries. The expenses for these plans are allocated to each subsidiary in accordance with an intercompany cost sharing arrangement. The liabilities for these plans are included with the liabilities for the corresponding plan of the Company.

The tables below are for financial reporting purposes only and do not reflect the status of the assets of each of the Pension Plan and the Retirement Plan under applicable law (in millions):

|  | <b>Pension Plan Benefits</b> |                 | <b>Other<br/>Postretirement Plan<br/>Benefits</b> |                 |
|--|------------------------------|-----------------|---|-----------------|
|  | <b>2010</b>                  | <b>2009</b>     | <b>2010</b>                                       | <b>2009</b>     |
|  | <u>2010</u>                  | <u>2009</u>     | <u>2010</u>                                       | <u>2009</u>     |
| <b>Change in benefit obligation:</b>   |                              |                 |   |                 |
| Benefit obligation at beginning of year  | \$ 4,427                     | \$ 3,575        | \$ 1,023  | \$ 898          |
| Service cost   | 98                           | 83              | 35  | 30              |
| Interest cost  | 270                          | 272             | 63  | 68              |
| Contributions by plan participants   | -                            | -               | 5   | 4               |
| Actuarial (gains)/losses   | 345                          | 667             | 42  | 80              |
| Benefits paid  | (221)                        | (205)           | (61)  | (68)            |
| Plan amendments  | -                            | -               | (1)   | -               |
| Impact of Measurement date change  | -                            | 35              | -   | 5               |
| Agents Pre 91 Non Contributory Life  | -                            | -               | 23  | -               |
| Medicare Part D Reimbursements   | -                            | -               | 4   | 6               |
| Benefit obligation at end of year <sup>1</sup>   | <u>\$ 4,919</u>              | <u>\$ 4,427</u> | <u>\$ 1,133</u>                                   | <u>\$ 1,023</u> |
| <b>Change in plan assets:</b>  |                              |                 |   |                 |
| Fair value of plan assets at beginning of year   | \$ 3,131                     | \$ 3,331        | \$ 413  | \$ 421          |
| Actual return on plan assets   | 399                          | 31              | 36  | 9               |
| Contributions by employer  | 576                          | 22              | 50  | 52              |
| Contributions by plan participants   | -                            | -               | 5   | 4               |
| Benefits paid  | (220)                        | (205)           | (61)  | (68)            |
| Impact of Measurement date change  | -                            | (48)            | -   | (5)             |
| Fair value of plan assets at end of year <sup>1</sup>  | <u>\$ 3,886</u>              | <u>\$ 3,131</u> | <u>\$ 443</u>                                     | <u>\$ 413</u>   |
| <b>Funded Status:</b>  |                              |                 |   |                 |
| Funded status  | \$ (1,034)                   | \$ (1,296)      | \$ (690)  | \$ (610)        |
| Unamortized prior service cost   | 26                           | 33              | -   | -               |
| Unrecognized net loss  | 1,716                        | 1,525           | 301   | 265             |
| Remaining net obligation at transition   | -                            | -               | 13  | 21              |
| Contributions by employer  | -                            | -               | -   | -               |
| Intangible asset <sup>2</sup>  | 6                            | 32              | -   | -               |
| Accumulated charge to surplus  | (224)                        | (562)           | -   | -               |
| <b>Prepaid (accrued) benefit cost</b>  | <u>\$ 490</u>                | <u>\$ (268)</u> | <u>\$ (376)</u>                                   | <u>\$ (324)</u> |
| <b>Accumulated Benefit obligation for all defined pension plans at December 31<sup>1</sup></b> | <u>\$ 4,467</u>              | <u>\$ 4,043</u> |   |                 |
| <b>Benefit obligation for non-vested participants<sup>3</sup></b>                              | <u>\$ 30</u>                 | <u>\$ 44</u>    | <u>\$ 250</u>                                     | <u>\$ 230</u>   |

<sup>1</sup> A measurement date of December 31<sup>st</sup> was used.

<sup>2</sup> Prepaid asset and the intangible asset are nonadmitted and are, therefore, not included in total statutory admitted assets.

<sup>3</sup> In 2010 and 2009, the non-vested employees were excluded from the table above and the accompanying financial statements. The benefit obligation for non-vested participants shown above is not accrued in the accompanying financial statements for other post retirement plan benefits of the Company consistent with statutory guidance and is presented for informational purposes only.

Statutory Accounting states that if the accumulated benefit obligation (“ABO”), which represents the present value of an employee or agent’s pension if pensions froze as of the measurement date, exceeds the fair value of the plan’s assets, the Company must recognize an AML that essentially represents the shortfall between the ABO and the plan assets.

Increases or decreases in the AML, less allowable intangible assets, are reported as direct adjustments to surplus. At December 31, 2010, the Company reflected a decrease in the net AML for the employees’ and agents’ plans of \$312 million (net of intangible asset of \$(26) million). At December 31, 2009, the Company reflected an increase in the net AML for the employees’ and agents’ plans of \$520 million (net of intangible asset of \$30 million).

The components of net periodic benefit cost were as follows (in millions):

|   | <b>Pension<br/>Plan Benefits</b> |              | <b>Other Postretirement<br/>Plan Benefits</b> |                |
|---|----------------------------------|--------------|---|----------------|
|   | <b>2010</b>                      | <b>2009</b>  | <b>2010</b>                                   | <b>2009</b>    |
| <b>Components of net periodic benefit cost:</b> |                                  |              |   |                |
| Service cost                                    | \$ 98                            | \$ 83        | \$ 35   | \$ 30          |
| Interest cost                                   | 270                              | 272          | 63  | 68             |
| Expected return on plan assets                  | (294)                            | (292)        | (36)  | (35)           |
| Amortization of net asset at transition         | -                                | -            | 8   | 8              |
| Amortization of (gains)/losses                  | 48                               | (1)          | 6   | 3              |
| Amortization of prior service cost              | 7                                | 8            | -   | -              |
| Agents Pre 91 Non Contributory Life             | -                                | -            | 23  | -              |
| Net periodic benefit cost                       | <u>\$ 129</u>                    | <u>\$ 70</u> | <u>\$ 99</u> *                                | <u>\$ 74</u> * |

\* Includes postretirement costs billed to subsidiaries of \$43 million and \$31 million for each of the years ended December 31, 2010 and 2009, respectively.

The impact of the Patient Protection and Affordable Care Act (“PPACA”) and Health Care and Education Reconciliation Act (“HCERA”) signed into law in March 2010 was immaterial and has been included in the disclosures for the Company’s Retiree Medical obligations.

## Other

The Company’s accumulated postretirement benefit obligation (“APBO”) and net periodic benefit costs include the effect of the federal subsidy provided by the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the “Act”). The Act introduced a prescription drug benefit under Medicare beginning in 2006. Under the Act, employers who sponsor postretirement plans that provide prescription drug benefits that are actuarially equivalent to Medicare Part D qualify to receive subsidy payments.

A summary of the reduction to the APBO and related reduction to the components of net periodic other postretirement benefit cost is as follows (in millions):

|  | <b>Years Ended December 31,</b> |              |
|--|---------------------------------|--------------|
|  | <b>2010</b>                     | <b>2009</b>  |
| <b>Cumulative reduction in benefit obligation:</b> |                                 |              |
| Beginning of year                                  | \$ 92                           | \$ 77        |
| Eligibility cost                                   | 1                               | 2            |
| Interest cost                                      | 3                               | 6            |
| Net actuarial loss                                 | (3)                             | 12           |
| Prescription drug subsidy                          | (85)                            | (6)          |
| Impact of measurement date change                  | -                               | 1            |
| End of year  | <u>\$ 8</u>                     | <u>\$ 92</u> |
| <b>Reduction in net periodic benefit cost:</b>     |                                 |              |
| Eligibility cost                                   | \$ 1                            | \$ 2         |
| Interest cost                                      | 3                               | 6            |
| Amortization of net actuarial loss                 | -                               | 1            |
| Total reduction in net periodic benefit cost       | <u>\$ 4</u>                     | <u>\$ 9</u>  |

The Company made gross benefit payments of \$53 million and received \$4 million in Medicare Part D subsidy payments during the 2010 Measurement Period (1/1/2010 thru 12/31/2010). For the 2009 Measurement Period (10/1/2008 thru 12/31/2009), the Company made gross benefit payments of \$61 million and received \$7 million in Medicare Part D subsidy payments.

Weighted-average assumptions used to determine benefit obligations for the years ended December 31, 2010 and 2009:

|                                | <b>Pension<br/>Plan Benefits</b> |             | <b>Other<br/>Postretirement<br/>Plan Benefits</b> |             |
|--------------------------------|----------------------------------|-------------|---|-------------|
|                                | <b>2010</b>                      | <b>2009</b> | <b>2010</b>                                       | <b>2009</b> |
| Discount rate                  | 5.75%                            | 6.25%       | 5.75%   | 6.25%       |
| Rate of compensation increase: |                                  |             |   |             |
| Employees                      | 5.00%                            | 3.93%/5%    | 5.00%   | 3.93%/5%    |
| Agents                         | 5.20%                            | 5.20%       | N/A   | N/A         |

## Assumptions

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2010 and 2009:

|  | Pension<br>Plan Benefits |             | Other<br>Postretirement<br>Plan Benefits |               |
|--|--------------------------|-------------|--|---------------|
|  | 2010                     | 2009        | 2010                                     | 2009          |
| Discount rate                            | 6.25%                    | 7.80%       | 6.25%                                    | 7.80%         |
| Expected long-term return on plan assets | 8.25%                    | 8.25%       | 7.25%/7.75% *                            | 7.25%/7.75% * |
| Rate of compensation increase:           |                          |             |  |               |
| Employees                                | 3.93%/5.00% **           | 3.93%/5% ** | 3.93%/5.00% **                           | 3.93%/5% **   |
| Agents                                   | 5.20%                    | 5.20%       | N/A                                      | N/A           |

\*Expected long-term return on plan assets is 7.25% for health benefits and 7.75% for life benefits.

\*\*Rate of compensation increase for 2010 is 3.93% and increases in 2011 and 2012 to an ultimate rate of 5% beginning 2013.

The discount rates used to determine the Company's pension and other postretirement plan obligations were based on a hypothetical double A yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to be non-callable and have a rating of Aa by Moody's Investor Service, Inc. or a rating AA by Standard & Poor's. The yields are used to discount future pension and postretirement benefit plan cash flows at an interest rate specifically applicable to the timing of each respective cash flow. The sum of these discounted cash flows are totaled into a single present value and an equivalent weighted-average discount rate is calculated by imputing the singular interest rate that equates the total present value of the stream of future cash flows. This resulting interest rate is used by the Company as its discount rate for the pension and postretirement benefit plans.

The expected long-term return on plan assets is based on (1) an evaluation of the historical behavior of the broad financial markets and, (2) the plan's investment portfolio modified by input from the plan's investment consultant of future returns based on today's economic and financial market conditions.

The assets that back the Company's Pension Plan and Retirement Plan consist of approximately 60% public and private equity securities and 40% fixed income securities. The 8.25% long term rate of return (which has been in effect for several years) is based on this allocation.

The determination of the annual rate of increase in the per capita cost of covered health care benefits is reviewed separately for medical and prescription drug plans as well as for participants under and over age 65. At December 31, 2010, these assumed future rates of increase are the same for both medical and prescription drug plans as well as for participants under and over 65. For dental plans, the annual rate of increase in the per capita cost utilizes a single rate for all participants.

In measuring the year-end 2010 obligations, the annual rate of increase in the per capita cost of covered health care medical benefits and prescription drug benefits were assumed to be 8.0% for 2011 for all participants. For the year-end 2010 measurement, the rate was assumed to decline gradually to 5.0% by 2015 for both medical and prescription drug benefits and remain at that level thereafter. For dental plans, the annual rate of increase in the per capita cost of covered health care benefits is assumed to be 5.0% for all participants and remain at that level.



In measuring the year-end 2009 obligations, the annual rate of increase in the per capita cost of covered health care medical benefits and prescription drug benefits was assumed to be 8.75% for 2010 for all participants. For the year-end 2009 measurement, the rate was assumed to decline gradually to 5% by 2015 for both medical and prescription drug benefits and remain at that level thereafter. For dental plans, the annual rate of increase in the per capita cost of covered health care benefits is assumed to be 5% for all participants and remain at that level.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point increase and decrease in assumed health care cost trend rates would have the following effects (in millions):

|   | <b>2010<br/>One Percent<br/>Increase</b> | <b>2010<br/>One Percent<br/>Decrease</b> |
|---|--|--|
| Effect on total of service and interest cost components | \$ 11                                    | \$ (9)                                   |
| Effect on accumulated postretirement obligations        | \$ 103                                   | \$ (84)                                  |

### Plan Assets

The investment objectives for the Pension Plan, Retirement Plan and the VEBA Trusts are, first, to maintain sufficient income and liquidity to fund benefit payments; second, to preserve the capital value of the plans and trusts; third, to increase the capital value of the plans and trusts; and fourth, to earn a long-term rate of return which meets or exceeds plans' and trusts' assumed actuarial rates of return. Under the investment policies of the Pension Plan and the Retirement Plan, the plans' assets are to be invested primarily in a balanced and diversified mix of high quality equities, fixed income securities, group annuity contracts, private equity investments and cash equivalents, and such other assets as may be appropriate. Under the investment policies for the VEBA Trusts, the assets of the trusts are to be invested primarily in insurance contracts (variable and/or fixed) and/or mutual funds which, in turn, invest in a balanced and diversified mix of high quality equities, fixed income securities and cash equivalents, and such other assets as may be appropriate. The Investment Committees of the Board of Trustees (the "Committees") monitor and review investment performance to ensure assets are meeting investment objectives.

The Committees have established a broad investment strategy targeting an asset allocation of 60% equity securities and 40% fixed income for both the Pension Plan and the Retirement Plan, and 70% equity securities and 30% fixed income for the VEBA Trusts. Diversifying each asset class by style and type further enhances this allocation. In developing this asset allocation strategy, the Committees took into account, among other factors, the information provided to it by the plans' actuary, information relating to the historical investment returns of each asset class, the correlations of those returns and input from the plans' investment consultant. The Committees regularly review the plans' asset allocations versus the targets and make adjustments as appropriate.

The weighted-average asset allocation for the employee and agent defined benefit pension plans at December 31, 2010 and 2009, and target allocations by asset category were as follows:

| Asset Category    | <b>Target<br/>Allocation<br/>Percentage</b> | <b>Percentage of Plan Assets</b> |             |
|-------------------|---|----------------------------------|-------------|
|                   | <b>December 31,<br/>2010 and 2009</b>       | <b>December 31,</b>              |             |
|                   |   | <b>2010</b>                      | <b>2009</b> |
| Fixed Income      | 40%   | 35%                              | 39%         |
| Equity Securities | 60%   | 65%                              | 61%         |
| Total             | <u>100%</u>                                 | <u>100%</u>                      | <u>100%</u> |

Equity securities include common stock in the amount of \$2,516 million (65% of total assets of the Pension Plan and Retirement Plan) and \$1,924 million (61% of total assets of the Pension Plan and Retirement Plan) at December 31, 2010 and 2009, respectively.

The Company's weighted-average asset allocation for the other postretirement benefit plans at December 31, 2010 and 2009, and target allocations by asset category under the VEBA Trusts were as follows:

| Asset Category    | <b>Target<br/>Allocation<br/>Percentage</b> | <b>Percentage of VEBA Trust Assets</b> |             |
|-------------------|---|--|-------------|
|                   | <b>December 31,<br/>2010 and 2009</b>       | <b>December 31,</b>                    |             |
|                   |   | <b>2010</b>                            | <b>2009</b> |
| Fixed Income      | 30%   | 31%                                    | 43%         |
| Equity Securities | <u>70%</u>                                  | <u>69%</u>                             | <u>57%</u>  |
| Total             | <u>100%</u>                                 | <u>100%</u>                            | <u>100%</u> |

Equity securities include common stock in the amount of \$292 million (69% of total VEBA Trust Life and Health assets) and \$222 million (57% of total VEBA Trust Life and Health assets) at December 31, 2010 and 2009, respectively.

The pooled separate accounts under the SA Contract for each of the Pension Plan and the Retirement Plan invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

Actuarial present values of accumulated benefits are reported based on certain actuarial assumptions, which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions could occur in the near term and would be material to the financial statements.

The fair values of the Pension Plan and Retirement Plan assets at December 31, 2010 are as follows (in millions):

|  | <b>Quoted prices in<br/>Active Markets<br/>for Identical<br/>Assets (Level 1)</b> | <b>Significant<br/>Observable<br/>Inputs (Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs (Level 3)</b> | <b>Total</b>    |
|--|---|--|--|-----------------|
| Fixed income investments:                |   |  |  |                 |
| Immediate Participation Guarantee        | \$ -  | \$ -   | \$ 1,147   | \$ 1,147        |
| High Yield Bond Separate Accounts        | -   | 222  | -  | 222             |
| Equity type investment:                  |   |  |  |                 |
| Private equity separate accounts         | -   | -  | 453  | 453             |
| Indexed Equity Separate Account          | -   | 657  | -  | 657             |
| International Equity Separate Account    | -   | 590  | -  | 590             |
| Small Cap Corp Separate Account          | -   | 187  | -  | 187             |
| REIT Equity Separate Account             | -   | 350  | -  | 350             |
| Large Cap Enhanced Separate Account      | -   | 280  | -  | 280             |
| Total assets accounted for at fair value | <u>\$ -</u>   | <u>\$ 2,286</u>  | <u>\$ 1,600</u>  | <u>\$ 3,886</u> |

The fair values of the Pension Plan and Retirement Plan assets at December 31, 2009 are as follows (in millions):

|  | <b>Quoted prices in<br/>Active Markets<br/>for Identical<br/>Assets (Level 1)</b> | <b>Significant<br/>Observable<br/>Inputs (Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs (Level 3)</b> | <b>Total</b>    |
|--|---|--|--|-----------------|
| Fixed income investments:                |   |  |  |                 |
| Immediate Participation Guarantee        | \$ -  | \$ -   | \$ 1,004   | \$ 1,004        |
| High Yield Bond Separate Accounts        | -   | 203  | -  | 203             |
| Equity type investment:                  |   |  |  |                 |
| Private equity separate accounts         | -   | -  | 413  | 413             |
| Indexed Equity Separate Account          | -   | 274  | -  | 274             |
| International Equity Separate Account    | -   | 564  | -  | 564             |
| Small Cap Corp Separate Account          | -   | 153  | -  | 153             |
| REIT Equity Separate Account             | -   | 273  | -  | 273             |
| Large Cap Enhanced Separate Account      | -   | 247  | -  | 247             |
| Total assets accounted for at fair value | <u>\$ -</u>   | <u>\$ 1,714</u>  | <u>\$ 1,417</u>  | <u>\$ 3,131</u> |

The table below presents a reconciliation of all level 3 assets and liabilities for the year ended December 31, 2010 (in millions):

|   | <b>Immediate<br/>Participation<br/>Guarantee</b> | <b>Private Equity<br/>Separate<br/>Account</b> | <b>Total</b>    |
|---|--|--|-----------------|
| Fair value, beginning of year                       | \$ 1,004   | \$ 413   | \$ 1,417        |
| Return of plan assets:                              |  |  |                 |
| Relating to assets still held at the reporting date | 59   | 76   | 135             |
| Purchases, sales and settlements                    | 84   | (36)   | 48              |
| Fair value, end of year                             | <u>\$ 1,147</u>                                  | <u>\$ 453</u>                                  | <u>\$ 1,600</u> |

The table below presents a reconciliation of all level 3 assets and liabilities for the year ended December 31, 2009 (in millions):

|   | <b>Immediate<br/>Participation<br/>Guarantee</b> | <b>Private Equity<br/>Separate<br/>Account</b> | <b>Total</b>    |
|---|--|--|-----------------|
| Fair value, beginning of year                       | \$ 1,143   | \$ 441   | \$ 1,584        |
| Return of plan assets:                              |  |  |                 |
| Relating to assets still held at the reporting date | 63   | (40)   | 23              |
| Purchases, sales and settlements                    | (202)  | 12   | (190)           |
| Fair value, end of year                             | <u>\$ 1,004</u>                                  | <u>\$ 413</u>                                  | <u>\$ 1,417</u> |

## Determination of Fair Values

The following is a description of the valuation methodologies used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### Immediate Participation Guarantee (“IPG”)

The IPG contract is categorized as a Level 3 because the contract value of these contracts relies on internal reports issued by New York Life Investments that would be unobservable by third party market participants.

### Separate Accounts

With the exception of the Private Equity Separate Accounts, the separate accounts accumulated unit value (“AUV”) represents the fair value of each unit held by the Pension and Retirement Plans and is the level at which transactions occur. The AUV for these investments is not quoted on an active exchange, so they do not fall under Level 1. In addition, there are no restrictions on transfers or withdrawals. However, since the Company does not make any adjustments to the AUV, the investments in these separate accounts, except for the Private Equity Separate Accounts, are reported as Level 2.

The Private Equity Separate Accounts invest in limited partnerships, and its investment is restricted with respect to transfer or withdrawal. Since the benefit plans cannot transact at the current AUV, the investment in the Private Equity Separate Accounts falls within Level 3.

The fair values of other postretirement benefit plan assets at December 31, 2010 were as follows (in millions):

|  | <b>Quoted prices in<br/>Active Markets<br/>for Identical<br/>Assets (Level 1)</b> | <b>Significant<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b>  |
|--|---|--|--|---------------|
| Fixed income investments:                |   |  |  |               |
| MainStay Intermediate Term Bond Fund     | \$ -  | \$ -   | \$ -   | \$ -          |
| CSUL Policies                            | -   | -  | 130  | 130           |
| Immediate Participation Guarantee        | -   | -  | 20   | 20            |
| Short term treasury notes                | -   | -  | -  | -             |
| Equity type investment:                  |   |  |  |               |
| MainStay S&P 500 Index Fund              | 117   | -  | -  | 117           |
| MainStay International Equity Fund       | 20  | -  | -  | 20            |
| CSVUL                                    |   |  |  |               |
| <i>MainStay VP Indexed Equity</i>        | -   | -  | 122  | 122           |
| <i>MainStay VP International Equity</i>  | -   | -  | 33   | 33            |
| Total assets accounted for at fair value | <u>\$ 137</u>   | <u>\$ -</u>  | <u>\$ 305</u>  | <u>\$ 442</u> |

The fair values of other postretirement benefit plan assets at December 31, 2009 were as follows (in millions):

|  | <b>Quoted prices in<br/>Active Markets for<br/>Identical Assets<br/>(Level 1)</b> | <b>Significant<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Total</b>  |
|--|---|--|--|---------------|
| Fixed income investments:                |   |  |  |               |
| MainStay Intermediate Term Bond Fund     | \$ 44   | \$ -   | \$ -   | \$ 44         |
| CSUL Policies                            | -   | -  | 127  | 127           |
| Immediate Participation Guarantee        | -   | -  | 19   | 19            |
| Short term treasury notes                | -   | 1  | -  | 1             |
| Equity type investment:                  |   |  |  |               |
| MainStay S&P 500 Index Fund              | 58  | -  | -  | 58            |
| MainStay International Equity Fund       | 20  | -  | -  | 20            |
| CSVUL                                    |   |  |  |               |
| <i>MainStay VP Indexed Equity</i>        | -   | -  | 111  | 111           |
| <i>MainStay VP International Equity</i>  | -   | -  | 33   | 33            |
| Total assets accounted for at fair value | <u>\$ 122</u>   | <u>\$ 1</u>  | <u>\$ 290</u>  | <u>\$ 413</u> |

The table below presents a reconciliation of all level 3 assets and liabilities for the year ended December 31, 2010 (in millions):

|   | <b>CSUL<br/>Policies</b> | <b>CSVUL<br/>MainStay VP<br/>Indexed<br/>Equity</b> | <b>CSVUL<br/>MainStay VP<br/>International<br/>Equity</b> | <b>Immediate<br/>Participation<br/>Guarantee</b> | <b>Total</b>  |
|---|--------------------------|---|---|--|---------------|
| Fair value, beginning of year                       | \$ 127                   | \$ 111  | \$ 33   | \$ 19  | \$ 290        |
| Return of plan assets:                              |                          |   |   |  |               |
| Relating to assets still held at the reporting date | 6                        | 16  | 1   | 1  | 24            |
| Purchases, sales and settlements                    | (3)                      | (5)   | (1)   | -  | (9)           |
| Fair value, end of year                             | <u>\$ 130</u>            | <u>\$ 122</u>                                       | <u>\$ 33</u>  | <u>\$ 20</u>                                     | <u>\$ 305</u> |

The table below presents a reconciliation of all level 3 assets and liabilities for the year ended December 31, 2009 (in millions):

|   | CSUL<br>Policies | CSVUL<br>MainStay VP<br>Indexed<br>Equity | CSVUL<br>MainStay VP<br>International<br>Equity | Immediate<br>Participation<br>Guarantee | Total         |
|---|------------------|---|---|---|---------------|
| Fair value, beginning of year                       | \$ 122           | \$ 92                                     | \$ 29   | \$ 18                                   | \$ 261        |
| Return of plan assets:                              |                  |   |   |   |               |
| Relating to assets still held at the reporting date | 6                | 23  | 5   | 1                                       | 35            |
| Purchases, sales and settlements                    | (1)              | (4)                                       | (1)   | -                                       | (6)           |
| Fair value, end of year                             | <u>\$ 127</u>    | <u>\$ 111</u>                             | <u>\$ 33</u>                                    | <u>\$ 19</u>                            | <u>\$ 290</u> |

### Determination of Fair Values

The following is a description of the valuation methodologies used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### The MainStay Funds

The Mainstay retail funds are all open end mutual funds, traded on an active exchange, in which the net asset value (“NAV”) represents the fair value of the shares held and are categorized in the hierarchy as Level 1. There are no restrictions on contributions and withdrawals.

### CSUL and CSVUL

The CSUL and the CSVUL are reported at cash surrender value. These policies have surpassed their surrender charge period; therefore, their cash value and their contract value are equal. These policies are categorized in the hierarchy as a Level 3 since the valuation relies on data supplied by an insurance carrier that is unique to these policies the inputs are unobservable. There is also no secondary market for these assets.

### Short-term treasury notes

The Company uses amortized cost to represent the fair value of these assets, which approximates the fair value due to their short duration. These short-term investments are a Level 2.

### Cash

The fair value of cash is equivalent to its carrying value, and is assigned a Level 1 in the fair value hierarchy as the amounts are available on demand.

### Plan Amendments

There were no changes to the qualified and nonqualified pension plans during 2010.

Effective January 1, 2009, the Pension Plan was amended to provide that (i) surviving spouse benefits will be determined on the basis of actuarial equivalence rather than a fixed percentage reduction, and (ii)

the automatic form of benefit for married participants (and their surviving spouses) will be a 75% joint and survivor annuity. Effective January 1, 2009, the Company's Excess Benefit Plan will apply a similar methodology.

## Cash Flows

The estimated future benefit payments are based on the same assumptions as used to measure the benefit obligations at December 31, 2010 and 2009. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

|                        | <b>Pension<br/>Benefits</b> | <b>Other<br/>Postretirement<br/>Benefits</b> | <b>Postemployment<br/>Plan Benefits</b> | <b>Estimated<br/>Federal<br/>Subsidy</b> |
|------------------------|-----------------------------|--|---|--|
| 2011                   | \$ 244                      | \$ 69  | \$ 10                                   | \$ (5)                                   |
| 2012                   | 259                         | 73   | 10                                      | (5)                                      |
| 2013                   | 275                         | 78   | 11                                      | (5)                                      |
| 2014                   | 289                         | 83   | 12                                      | (5)                                      |
| 2015                   | 303                         | 89   | 12                                      | (6)                                      |
| Thereafter (2016-2020) | 1,727                       | 602  | 74                                      | (41)                                     |
| Total                  | <u>\$ 3,097</u>             | <u>\$ 994</u>                                | <u>\$ 129</u>                           | <u>\$ (67)</u>                           |

The Company does not expect to make any contributions to its tax-qualified Pension Plan and Retirement Plan during 2011. The Company expects to pay approximately \$25 million of non-qualified Pension Plan and Retirement Plan benefits during 2011. In addition, the Company expects to contribute approximately \$4 million to its postretirement benefit plans during 2011.

## Postemployment Benefits and Compensated Absences

The Company provides certain benefits to eligible employees and agents during employment for paid absences. These benefits include, but are not limited to, salary continuation during medical and maternity leaves, disability-related benefits, and continuation of benefits such as health care and life insurance coverage.

At December 31, 2010 and 2009, the Company accrued a \$26 million and \$24 million obligation, respectively, related to the funding of these benefits. The net periodic benefit cost associated with these programs in 2010 and 2009 was \$13 million (includes postemployment costs billed to subsidiaries of \$5 million and \$4 million for the years ended December 31, 2010 and 2009, respectively).

## Defined Contribution Plans

The Company maintains the Employee Progress-Sharing Investment Plan ("EPSI") which is a tax-qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees of the Company and certain eligible employees of subsidiaries that adopt EPSI (individuals eligible under the Company's Agents' Progress-Sharing Investment Plan ("APSI") are not eligible under EPSI).

Under EPSI, participants may contribute (i) on a pre-tax basis to a 401(k) account, a percentage of base salary and eligible incentive compensation (up to 10% for employees whose total annual compensation exceeds the prior years' highly compensated threshold for qualified plans based on previous years' total pay (\$110,000 in 2009 for 2010 contributions, and \$105,000 in 2008 for 2009 contributions) and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (ii)

to a non-tax deductible account up to 10% of base salary and eligible incentive pay. Highly compensated employees are limited to a combined 401(k) and non-tax deductible rate of 10%. Participants may also roll over qualified distributions from eligible retirement plans into EPSI. EPSI also permits participants age 50 and over to make additional pre-tax 401(k) “catch-up” contributions (\$5,500 for 2010 and 2009).

The Company annually determines the level of the Company’s matching contributions to EPSI. In 2010 and 2009, the Company made matching contributions of up to 3% of base salary and eligible incentive pay. For the years ended December 31, 2010 and 2009, the Company’s matching contributions to EPSI totaled \$24 million and \$23 million, respectively. The Company also maintains the Excess EPSI Plan for certain eligible participants, which is a non-qualified unfunded arrangement that credits participant contributions and matching contributions in respect of compensation in excess of the amount that may be taken into account under EPSI because of applicable IRS limits. The Excess EPSI Plan was amended and restated to comply with IRC Section 409A.

The Company also maintains APSI, which is a qualified defined contribution plan covering substantially all contracted United States full-time agents (individuals eligible under EPSI are not eligible under APSI).

Under APSI, participants make contributions entering into commission reduction agreements with the Company whereby a percentage of their compensation (up to 7% for agents whose total annual compensation for the prior year exceeds the prior years’ highly compensated dollar threshold for qualified plans based on previous years’ total pay (\$110,000 in 2009 for 2010 contributions, and \$105,000 in 2008 for 2009 contributions) and up to 15% for agents whose total compensation is below the highly compensated threshold) may be contributed to a 401(k) account. Participants may also roll over qualified distributions from eligible retirement plans into APSI. APSI also permits participants age 50 and over to make additional pre-tax 401(k) “catch-up” contributions (\$5,500 for 2010 and 2009).

The Company annually determines the level of the Company’s contributions to APSI. Contributions are based on the participant’s net renewal commissions, net renewal premiums and cash values for the plan year on policies for which the participant is the original writing agent. In both 2010 and 2009, the Company’s contributions to APSI totaled \$2 million. The Company also maintains the Excess APSI Plan, which is a non-qualified, unfunded arrangement that credits Company contributions in excess of the maximum Company contributions that may be made under APSI because of certain applicable IRS limits. The Excess APSI Plan was amended and restated to comply with IRC Section 409A.

## **NOTE 14 – COMMITMENTS AND CONTINGENCIES**

### **Support and Credit Agreements**

Under the Prior MCF Loan Agreement and the New MCF Loan Agreement with MCF, the Company will provide funding to MCF in an amount not to exceed the lesser of \$3,200 million under these agreements, together with all other amounts advanced to or on behalf of MCF by the Company or its affiliates, or 3% of the Company's admitted assets of December 31 of the prior year. As of December 31, 2010, the Company loaned \$1,451 million and \$244 million under the Prior and New Loan Agreements, respectively (See Note 6 – Related Party Transactions for details regarding loans extended to MCF under these agreements). In addition, \$533 million was loaned to MCF by the Company’s affiliates as of December 31, 2010.

The Company has a support agreement dated September 28, 1995 with its wholly owned affiliate, NYLCC, to maintain NYLCC’s tangible net worth in the amount of at least \$1. NYLCC serves as a



conduit to the credit markets for the Company and its affiliates, and is authorized to issue commercial paper in an aggregate principal amount not to exceed \$3 billion.

At December 31, 2008, the Company issued a Limited Guaranty to a NYLI subsidiary for all obligations and liabilities of NYL-HK Capital Planning LLC a Delaware LLC wholly-owned by NYLI. Pursuant to this Limited Guaranty, the Company guaranteed the performance of the LLC under two capital planning swap agreements between the LLC and another NYLI subsidiary that received the benefit of the guarantee. The amount payable under the Limited Guaranty is capped at \$25 million.

On August 11, 2004, the Company entered into a Credit Agreement with NYLAZ, whereby NYLAZ is able to borrow up to \$10 million from the Company for short-term liquidity needs. During 2010, the credit facility was not used, no interest was paid and there was no outstanding balance due.

The Company has a Credit Agreement with NYLIAC, dated September 30, 1993, as amended, whereby NYLIAC may borrow from the Company up to \$490 million. During 2010, the credit facility was not used, no interest was paid and there was no outstanding balance due.

In addition, the Company has a Credit Agreement with NYLIAC, dated April 1, 1999, as amended, under which the Company may borrow from NYLIAC up to \$490 million. During 2010, the credit facility was not used, no interest was paid and there was no outstanding balance due.

The Company, in the ordinary course of its business, enters into numerous arrangements with its affiliates. In addition, in the ordinary course of its business, the Company may enter into guarantees and/or keepwells between itself and its affiliates.

On August 16, 2001, NYLIFE LLC entered into an agreement with Credit Suisse, referred to as Shared Appreciation Income Linked Securities ("SAILS"). Under the agreement, NYLIFE LLC entered into a forward sale of certain of its shares of Express Scripts, Inc. ("ESI"). NYLIFE LLC may deliver up to 36 million shares of ESI common stock on August 22, 2011 or settle the transaction in cash, instead of delivering shares. According to the terms of the agreement, NYLIFE LLC receives a minimum value of \$6.76 per share and 100% of the appreciation in the shares up to \$8.78 per share. Credit Suisse will receive approximately 77% of the appreciation of ESI stock in excess of \$8.78 per share. During 2007, NYLIFE LLC entered into another agreement (the "Overlay Agreement") which modifies the risk and opportunity allocated under SAILS, limiting the risk of loss by protecting a portion of the unrealized retained value in the SAILS transaction from potential decline in the ESI stock price. The terms of the Overlay Agreement allow NYLIFE LLC to protect 5,600,000 shares of ESI from any decline in stock price from \$24.52 per share down to \$8.78 per share. In exchange for limiting its downside risk, NYLIFE LLC has agreed to provide 100% of the appreciation in ESI stock price in excess of \$35.19. The Company's investment in NYLIFE LLC reflects the obligations to Credit Suisse associated with the terms of the agreements, which the Company has guaranteed. The prices per share and number of shares in the foregoing paragraph have been adjusted for all stock splits, the most recent being effective June 8, 2010.

At December 31, 2010 and 2009, contractual commitments to extend credit under commercial mortgage loan agreements totaled \$122 million and \$112 million, respectively, at both fixed and variable rates of interest. These commitments are diversified by property type and geographic location. There were no contractual commitments to extend credit under residential loan agreements as of December 31, 2010 and 2009.

At December 31, 2010 and 2009, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to \$204 million and \$133 million, respectively.

Unfunded commitments on limited partnerships, limited liability corporations and collateralized third party loans amounted to \$2,077 million and \$2,363 million at December 31, 2010 and 2009, respectively. Unfunded commitments on LIHTC amounted to \$34 million and \$47 million at December 31, 2010 and 2009, respectively.

## Litigation

The Company and/or its subsidiaries are defendants in individual and/or alleged class action suits arising from their agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, employment and/or other operations, including actions involving retail sales practices. Most of the actions seek substantial or unspecified compensatory and punitive damages. The Company and/or its subsidiaries are also from time to time involved in various governmental, administrative and investigative proceedings and inquiries.

Notwithstanding the uncertain nature of litigation and regulatory inquiries, the outcome of which cannot be predicted, the Company believes that, after provisions made in the financial statements, the ultimate liability that could result from litigation and proceedings would not have a material adverse effect on the Company's financial position; however, it is possible that settlements or adverse determinations in one or more actions or other proceedings in the future could have a material adverse effect on the Company's operating results for a given year.

## Lease Commitments

A summary of the approximate future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms for the next five years and thereafter is as follows (in millions):

| <u>Year</u> | <u>Real Property</u> | <u>Equipment</u> | <u>Total</u>  |
|-------------|----------------------|------------------|---------------|
| 2011        | \$ 89                | \$ 15            | \$ 104        |
| 2012        | 82                   | 10               | 92            |
| 2013        | 69                   | 3                | 72            |
| 2014        | 60                   | -                | 60            |
| 2015        | 52                   | -                | 52            |
| Thereafter  | 203                  | -                | 203           |
| Total       | <u>\$ 555</u>        | <u>\$ 28</u>     | <u>\$ 583</u> |

The Company is a party to an affiliated group air transportation services agreement entered into with NYLIFE LLC in November 2004. Under the terms of the agreement, the Company, in conjunction with certain specified affiliates, leases an aircraft from NYLIFE LLC. Costs associated with the lease are determined on a fully allocated basis and allotted to the parties based on usage. The Company's share of expenses associated with the lease of the aircraft was \$1 million and \$4 million in 2010 and 2009, respectively. The agreement expired in November 2009 and was subsequently renewed for an additional five years, expiring in 2014. The aircraft is to be used by members of senior management and directors for business travel under certain circumstances. Personal use of the aircraft by employees and directors is not permitted.

Rent expense of all other leases amounted to \$124 million and \$125 million for the years ended December 31, 2010 and 2009, respectively, of which \$63 million was billed to subsidiaries in accordance with an intercompany cost sharing arrangement for both years ended December 31, 2010 and 2009.

The Company, as lessee, has various lease agreements for real property (including leases of office space) and lease agreements for data processing and other equipment. Real property leases have typical renewal periods of five years. Under the real property leases, the Company does not have the option to purchase the lease property except in the case of the Company's lease of the building at 169 Lackawanna Avenue, Parsippany, NJ. Under the equipment agreements, the Company has the option to purchase only the equipment. The leases on equipment do not contain any escalation clauses, but the majority of real property leases have escalation clauses that require the Company to pay expense increases over a specified amount. Real property leases typically have a variety of restrictions imposed on the lessee, which are generally customary in the marketplace and are not of a financial nature. Equipment leases do not have any restrictions.

The total amount of minimum rentals to be received in the future under non-cancelable subleases, at both December 31, 2010 and 2009, was less than \$1 million.

In connection with the sale of one of its Home Office properties in 1995, the Company had entered into an agreement to lease back a portion of the building through 2010. Effective December 7, 2009, the Company renewed such lease through 2024, with total future lease obligations of \$161 million as of December 31, 2010 that are included in the above table.

### **Borrowed Money**

At December 31, 2010 and 2009, the carrying value of borrowed money reported in the Statutory Statements of Financial Position was \$1,059 million and \$1,752 million, respectively. Borrowed money, generally carried at the unpaid principal balance and any interest payable, consisted of the following at December 31, 2010 and 2009 (in millions):

|   | <u>2010</u>     | <u>2009</u>     |
|---|-----------------|-----------------|
| Loan payable to NYLCC, various maturities, latest being February 22, 2011 (weighted average interest rate of 0.28% and 0.20% for 2010 and 2009, respectively) See Note 6 - Related Party Transactions | \$ 562          | \$ 531          |
| Real Estate Mortgage Investment Conduit ("REMIC") - See description below   | 380             | 500             |
| Loan payable to NYLI, expired March 31, 2011 (coupon rate of 5.58% less management fee of 5.5 basis points) - See Note 6 - Related Party Transactions   | 82              | 134             |
| Dollar repurchase agreements (average coupon rate of 4.14% and 4.55% for 2010 and 2009, respectively), See Repurchase Agreements  | 28              | 579             |
| Note payable to Aeolus Wind Power II LLC, due July 31, 2016 (fixed interest rate of 5.5%) - See description below   | <u>7</u>        | <u>8</u>        |
| <b>Total borrowed money</b>   | <u>\$ 1,059</u> | <u>\$ 1,752</u> |

During December 2009, the Company entered into a REMIC with a trust known as Madison ResCom Securities Funding Trust 2009 ("the Trust") that meets the criteria for a qualified SPE. The Company transferred REMIC eligible mortgage-backed assets with a fair value and book value of \$1,194 million and \$1,722 million, respectively. The Trust, in turn, issued a \$500 million senior debt tranche ("regular interest") and a residual equity tranche ("residual interest"). The regular interest was sold to an outside third party and the Company retained the residual interest. The transfer of the assets to the Trust was accounted for as a secured borrowing and the securities remain in the Company's admitted assets with the \$500 million proceeds received from the sale of the regular interest recognized as a liability. The

cashflows from the transferred assets are used to pay down the regular interest. The REMIC will be dissolved upon the earlier of the date on which the notes have been paid in full, March 1, 2012, or the occurrence of an Event of Default, at which time the Trustee will engage in an auction to sell for cash all of the property owned by the Trust for its fair market value. The excess proceeds, after payments of amounts due to the regular interest holder, will be paid to the holder of the residual interest.

On November 1, 2006, the Company issued a promissory note in the amount of \$10 million at a fixed interest rate of 5.5% per annum in connection with the purchase of a membership interest in Aeolus Wind Power II LLC. The note calls for the Company to make quarterly payments of principal and interest with the first installment being due on January 31, 2007 and the final installment being due on July 31, 2016. The note may not be prepaid in whole or in part and there are no collateral requirements. The carrying value of the note was \$7 million and \$8 million, respectively, at December 31, 2010 and 2009, including interest accrued.

### **Loaned Securities and Repurchase Agreements**

The Company participates in securities lending agreements whereby securities, which are included in investments, are loaned to third parties for the purpose of enhancing income on securities held. At December 31, 2010 and 2009, the aggregate fair value of the Company's bonds that were on loan to others was \$650 million and \$662 million, respectively. The Company requires as collateral, a stated percentage of the fair value of the securities on loan. If the securities being loaned are domestic, initial collateral equal to 102% of their fair value is required. If foreign securities are loaned and the denomination of the currency of the collateral is other than the denomination of the currency of the loaned foreign securities, the initial collateral requirement is 105% of their fair value.

At December 31, 2010 and 2009, the Company recorded cash collateral received under these agreements of \$660 million and \$689 million, respectively, and established a corresponding liability for the same amount. The reinvested collateral is reported in bonds, common stock, cash equivalents and short-term investments in the Statutory Statements of Financial Position at December 31, 2010 and 2009. These collateral assets all had open terms. The total fair value of all reinvested collateral positions was \$738 million and \$753 million at December 31, 2010 and 2009, respectively.

The Company also enters into securities lending arrangements for separate account investment securities, utilizing similar procedures and collateral requirements as those for general account loaned securities. At December 31, 2010 and 2009, there were no separate account securities lending arrangements.

At December 31, 2010, the Company had agreements to purchase and resell securities totaling \$192 million at an average coupon rate of 0.19%. At December 31, 2009, the Company had agreements to purchase and resell securities totaling \$239 million at an average coupon rate of 0.01%. The Company generally requires collateral of at least 95% of the fair value of the securities throughout the term of the contract.

At December 31, 2010, the Company had agreements to sell and repurchase securities totaling \$28 million at an average coupon rate of 4.14%. At December 31, 2009, the Company had agreements to sell and repurchase securities totaling \$579 million at an average coupon rate of 4.55%. These agreements are used for the purpose of enhancing income on the securities portfolio.

The following tables present the term and amounts of cash collateral received under dollar repurchase and securities lending agreements at December 31, 2010 and 2009 (in millions):

|                           | <b>December 31, 2010</b> |                          |                           |
|---------------------------|--------------------------|--------------------------|---------------------------|
|                           | <b>General Account</b>   | <b>Separate Account</b>  |                           |
|                           | <b>Dollar Repurchase</b> | <b>Dollar Repurchase</b> |                           |
|                           | <b>Agreements</b>        | <b>Agreements</b>        | <b>Securities Lending</b> |
| Open                      | \$ -                     | \$ -                     | \$ 664                    |
| 30 Days or Less           | 2                        | -                        | -                         |
| 31 to 60 Days             | 24                       | 10                       | -                         |
| 61 to 90 Days             | 2                        | -                        | -                         |
| Greater Than 90 Days      | -                        | -                        | -                         |
| Total Collateral Received | <b><u>\$ 28</u></b>      | <b><u>\$ 10</u></b>      | <b><u>\$ 664</u></b>      |

|                           | <b>December 31, 2009</b> |                          |                           |
|---------------------------|--------------------------|--------------------------|---------------------------|
|                           | <b>General Account</b>   | <b>Separate Account</b>  |                           |
|                           | <b>Dollar Repurchase</b> | <b>Dollar Repurchase</b> |                           |
|                           | <b>Agreements</b>        | <b>Agreements</b>        | <b>Securities Lending</b> |
| Open                      | \$ -                     | \$ -                     | \$ 685                    |
| 30 Days or Less           | 230                      | 5                        | -                         |
| 31 to 60 Days             | 349                      | 10                       | -                         |
| 61 to 90 Days             | -                        | 12                       | -                         |
| Greater Than 90 Days      | -                        | -                        | -                         |
| Total Collateral Received | <b><u>\$ 579</u></b>     | <b><u>\$ 27</u></b>      | <b><u>\$ 685</u></b>      |

The following table presents the term and aggregate fair value of all securities acquired from the use of all collateral received at December 31, 2010 (in millions):

|                             | <b>General Account Dollar</b> |                     | <b>Separate Account Dollar</b> |                     | <b>Securities Lending</b> |                      |
|-----------------------------|-------------------------------|---------------------|--------------------------------|---------------------|---------------------------|----------------------|
|                             | <b>Repurchase Agreements</b>  |                     | <b>Repurchase Agreements</b>   |                     | <b>Amortized</b>          |                      |
|                             | <b>Amortized</b>              | <b>Amortized</b>    | <b>Amortized</b>               | <b>Amortized</b>    | <b>Amortized</b>          | <b>Amortized</b>     |
|                             | <b>Cost</b>                   | <b>Fair Value</b>   | <b>Cost</b>                    | <b>Fair Value</b>   | <b>Cost</b>               | <b>Fair Value</b>    |
| Open                        | \$ -                          | \$ -                | \$ -                           | \$ -                | \$ -                      | \$ -                 |
| 30 Days or Less             | 2                             | 2                   | -                              | -                   | 487                       | 487                  |
| 31 to 60 Days               | 24                            | 24                  | 10                             | 10                  | 152                       | 152                  |
| 61 to 90 Days               | 2                             | 2                   | -                              | -                   | 31                        | 31                   |
| 91 to 120 Days              | -                             | -                   | -                              | -                   | -                         | -                    |
| 121 to 180 Days             | -                             | -                   | -                              | -                   | 8                         | 8                    |
| 181 to 365 Days             | -                             | -                   | -                              | -                   | 22                        | 22                   |
| 1 to 2 Years                | -                             | -                   | -                              | -                   | 12                        | 12                   |
| 2 to 3 Years                | -                             | -                   | -                              | -                   | -                         | -                    |
| Greater Than 3 Years        | -                             | -                   | -                              | -                   | 29                        | 26                   |
| Total Collateral Reinvested | <b><u>\$ 28</u></b>           | <b><u>\$ 28</u></b> | <b><u>\$ 10</u></b>            | <b><u>\$ 10</u></b> | <b><u>\$ 741</u></b>      | <b><u>\$ 738</u></b> |

The aggregate fair value of all securities acquired from the use of all collateral received was \$1,332 million at December 31, 2009.

## **Assessments**

Most of the jurisdictions in which the Company is licensed to transact business require life insurers to participate in guaranty associations which are organized to pay contractual benefits pursuant to insurance policies issued by impaired, insolvent or failed life insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed life insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets.

The Company has received notification of the insolvency of various life insurers. It is expected that these insolvencies will result in non-recoverable guaranty fund assessments against the Company of approximately \$17 million, which have been accrued in "Other Liabilities" in the accompanying Statutory Statements of Financial Position.

## **Liens**

Several commercial banks have customary security interests in certain assets of the Company to secure potential overdrafts and other liabilities of the Company that may arise under custody, securities lending and other banking agreements with such banks.

## NOTE 15 – PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Under statutory accounting practices, the Company nonadmits all fixed assets and nonoperating software. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, generally no more than five years.

Below is a chart highlighting the major classes of property and equipment at December 31, 2010 and 2009 (in millions):

|                        | <b>2010</b>                |                                     |                     |
|------------------------|----------------------------|-------------------------------------|---------------------|
|                        | <b>Carrying<br/>Amount</b> | <b>Accumulated<br/>Depreciation</b> | <b>Depreciation</b> |
| Software               | \$ 421                     | \$ 267                              | \$ 30               |
| PC equipment           | 68                         | 50                                  | 5                   |
| Website development    | 95                         | 53                                  | 7                   |
| Subtotal EDP           | <u>584</u>                 | <u>370</u>                          | <u>42</u>           |
| Office furniture       | 59                         | 37                                  | 5                   |
| Telecommunications     | 48                         | 34                                  | 3                   |
| Leasehold improvements | 72                         | 38                                  | 5                   |
| Other                  | 12                         | 7                                   | 1                   |
| Subtotal Furniture     | <u>191</u>                 | <u>116</u>                          | <u>14</u>           |
| Total                  | <u>\$ 775</u>              | <u>\$ 486</u>                       | <u>\$ 56</u>        |
|                        | <b>2009</b>                |                                     |                     |
|                        | <b>Carrying<br/>Amount</b> | <b>Accumulated<br/>Depreciation</b> | <b>Depreciation</b> |
| Software               | \$ 356                     | \$ 203                              | \$ 28               |
| PC equipment           | 60                         | 42                                  | 5                   |
| Website development    | 79                         | 51                                  | 6                   |
| Subtotal EDP           | <u>495</u>                 | <u>296</u>                          | <u>39</u>           |
| Office furniture       | 53                         | 30                                  | 5                   |
| Telecommunications     | 42                         | 29                                  | 3                   |
| Leasehold improvements | 63                         | 30                                  | 4                   |
| Other                  | 9                          | 5                                   | 1                   |
| Subtotal Furniture     | <u>167</u>                 | <u>94</u>                           | <u>13</u>           |
| Total                  | <u>\$ 662</u>              | <u>\$ 390</u>                       | <u>\$ 52</u>        |

**NOTE 16 – WRITTEN PREMIUMS**

Deferred and uncollected life insurance premiums at December 31, 2010 and 2009 were as follows (in millions):

|                       | <u>2010</u>     |                       | <u>2009</u>     |                       |
|-----------------------|-----------------|-----------------------|-----------------|-----------------------|
|                       | <u>Gross</u>    | <u>Net of Loading</u> | <u>Gross</u>    | <u>Net of Loading</u> |
| Ordinary new business | \$ 123          | \$ 44                 | \$ 125          | \$ 49                 |
| Ordinary renewal      | 1,064           | 1,025                 | 1,093           | 1,067                 |
| Group Life            | 494             | 389                   | 487             | 391                   |
| Total                 | <u>\$ 1,681</u> | <u>\$ 1,458</u>       | <u>\$ 1,705</u> | <u>\$ 1,507</u>       |

Based upon Company experience, the amount of premiums that may become uncollectible and result in a potential loss is not material to the Company's financial position. For both years ended December 31, 2010 and 2009, the Company nonadmitted \$3 million of premiums that were over 90 days past due.

Direct premiums written by third party administrators ("TPAS") during 2010 and 2009 totaled \$602 million and \$587 million, respectively. Direct premiums written in 2010 and 2009 by TPAs were less than 5% of the total Company's surplus.



## NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2010 and 2009 (in millions). Since the SSAP 100 hierarchy only applies to items that are carried at fair value at the reporting date, the items in the tables in Note 18 – Fair Value Levels are subsets of the amounts reported in the following table.

|   | 2010            |            | 2009            |            |
|---|-----------------|------------|-----------------|------------|
|   | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>Assets:</b>  |                 |            |                 |            |
| Bonds   | \$ 65,925       | \$ 69,637  | \$ 65,222       | \$ 65,503  |
| Mortgage loans  | 9,445           | 9,998      | 9,540           | 9,317      |
| Common and preferred stocks (unaffiliated)            | 401             | 423        | 415             | 427        |
| Other invested assets <sup>1</sup>                    | 2,210           | 2,144      | 2,277           | 2,254      |
| Cash, cash equivalents and short-term investments     | 1,608           | 1,608      | 1,318           | 1,318      |
| Derivatives   | 651             | 721        | 484             | 602        |
| Separate account assets                               | 7,467           | 7,482      | 6,608           | 6,512      |
| <b>Liabilities:</b>                                   |                 |            |                 |            |
| <b>Deposit Fund Contracts:</b>                        |                 |            |                 |            |
| Funding Agreements                                    | \$ 11,504       | \$ 11,836  | \$ 12,717       | \$ 12,888  |
| Annuities Certain                                     | 304             | 304        | 375             | 395        |
| Other   | 1,884           | 1,884      | 1,953           | 1,953      |
| Derivatives   | 409             | 425        | 418             | 447        |
| Borrowed money  | 1,059           | 1,059      | 1,752           | 1,752      |
| Amounts due under securities lending                  | 660             | 660        | 684             | 684        |
| Separate account liabilities - derivatives            | -               | -          | 1               | -          |
| Separate account liabilities - deposit fund contracts | 299             | 299        | -               | -          |

<sup>1</sup> Excludes investments accounted for under the equity method.

### Bonds

The fair value of bonds is determined by considering one of three primary sources. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from third party pricing services, the remaining un-priced securities are submitted to independent brokers for prices, and lastly securities are priced using an internal pricing model.

The pricing service generally uses a discounted cash-flow model or market approach to determine fair value. Typical inputs used by these pricing services include, but are not limited to; benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds.

Independent pricing vendors do not cover private placement securities. These securities are priced by an internally developed model based upon assigned comparable public issues adjusted for liquidity, maturity and rating. The Company assigns a credit rating based upon internal analysis.

Prices from pricing services and broker quotes are validated on an ongoing basis to ensure the adequacy and reliability of the fair value measurement. The Company performs both quantitative and qualitative

analysis of the prices including initial and ongoing review of third party pricing methodologies, back testing of recent trades, and a thorough review of pricing trends and statistics.

### **Mortgage loans**

The estimated fair value of mortgage loans is determined by discounting the projected cash flows for each property to determine the current net present value. The discount rate used approximates the current rate for new mortgages with comparable characteristics and similar remaining maturities.

### **Common and preferred stocks**

The fair value of unaffiliated equity securities is determined by considering one of three primary sources. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from third party pricing services, the remaining un-priced securities are submitted to independent brokers for prices, and lastly securities are priced using an internal pricing model.

Prices from pricing services and broker quotes are validated on an ongoing basis to ensure the adequacy and reliability of the fair value measurement. The Company performs both quantitative and qualitative analysis of the prices including, initial and ongoing review of third party pricing methodologies, back testing of recent trades, and a thorough review of pricing trends and statistics.

### **Other invested assets**

For certain limited partnerships, the carrying value approximates fair value.

Included in other investments are loans receivable from MCF. The estimated fair value for the loans receivable is based on discounting future cash flows at a rate for comparable loans for revolving loan agreements and internal models, excluding accrued interest, for the promissory notes (see Note 6 - Related Party Transactions, for details on the loans). The estimated fair value of the remaining investments within other investments is determined using the methodologies for mortgage loans and private placement securities described above.

### **Cash, cash equivalents and short-term investments**

Due to the short-term maturities, the carrying value of short-term investments, cash and cash equivalents is presumed to approximate fair value.

### **Derivatives**

The fair value of derivative instruments is generally calculated using pricing valuation models, which utilize observable market data. The remaining derivatives are either exchange-traded or were priced using broker quotations. Over-the-counter (“OTC”) derivatives are privately negotiated financial contracts and are fair valued using market-based inputs to models. Where models are used, the selection of a particular model depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. Also, certain OTC derivatives are currently valued using broker quotations.

### **Separate account assets**

Assets within the separate account are primarily invested in common stocks, preferred stocks and bonds. The fair value of investments in the separate accounts is calculated using the same procedures as are used for common stocks, preferred stocks and bonds in the general account.

The separate account also invests in limited partnerships. The fair value of such partnerships is determined by reference to the limited partnership's NAV.

### **Deposit fund contracts**

For funding agreements backing medium term notes, fair values were based on available market prices for the notes. For other guaranteed investment contracts and annuities certain liabilities, fair values are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

For all other deposit funds, dividend accumulations and supplemental contracts, estimated fair value is equal to account value.

### **Borrowed money**

Borrowed money consists of intercompany borrowings, repurchase agreements and other financing arrangements. Due to the short-term nature of the transactions, the carrying value approximates estimated fair value.

### **Amounts due under securities lending**

Amounts due under securities lending consists of cash collateral received under securities lending agreements. Due to the short-term nature of the transactions, the carrying value approximates estimated fair value.

### **Separate account liabilities – derivatives and deposit fund contracts**

For deposit fund contracts, which are funding agreements, the carrying value of the liability approximates fair value.

For derivative instruments, fair value is determined using the same procedures as the general account disclosed above.

## NOTE 18 – FAIR VALUE LEVELS

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stocks when carried at the lower of cost or market.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SSAP 100. Fair value is the price that would be received to sell an asset or paid to transfer liability in a orderly transaction between market participants at the measurement date. This guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

Since the SSAP 100 hierarchy only applies to items that are carried at fair value at the reporting date, the items in the tables below are a subset of the amounts reported in Note 17 – Fair Value of Financial Instruments.

The levels of the fair value hierarchy are based on the inputs to the valuation as follows:

- Level 1** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. This would include active exchange-traded equity and derivative securities and open-ended mutual funds with a daily NAV, and no restrictions.
- Level 2** Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other model driven inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Fair values for bonds in this category are priced principally by independent pricing services or by internal models using observable inputs. Fair values for derivatives in this category are priced by internal models using observable inputs. This category also includes the fair values of separate accounts that invest in limited partnerships that uses NAV, if the investment can be redeemed with the investee at NAV at the measurement date.
- Level 3** Instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions in pricing the asset or liability. Pricing may also be based upon broker quotes that do not represent an offer to transact. Examples include certain private equity investments and separate accounts that invest in limited partnerships that uses NAV, but where the investments cannot be redeemed with the investee as of the measurement date.

The following table represents the balances of assets and liabilities measured at fair value as of December 31, 2010 (in millions):

|   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total           |
|---|---|--|--|-----------------|
| Assets at fair value                                    |   |  |  |                 |
| Preferred stocks  |   |  |  |                 |
| Non-redeemable preferred stock                          | \$ -  | \$ 1   | \$ -   | \$ 1            |
| Total Preferred Stocks                                  | -   | 1  | -  | 1               |
| Bonds   |   |  |  |                 |
| U.S. Corporates   | -   | 1  | -  | 1               |
| Residential mortgage-backed securities                  | -   | 48   | -  | 48              |
| Commercial mortgage-backed securities                   | -   | 8  | -  | 8               |
| Asset-backed securities                                 | -   | 5  | 3  | 8               |
| Total Bonds   | -   | 62   | 3  | 65              |
| Common Stock  | 192   | -  | 132  | 324             |
| Derivative assets                                       |   |  |  |                 |
| Interest rate swaps                                     | -   | 2  | -  | 2               |
| Interest rate caps                                      | -   | 12   | -  | 12              |
| Inflation swaps   | -   | 1  | -  | 1               |
| Swaptions   | -   | 82   | -  | 82              |
| Treasury locks  | -   | 1  | -  | 1               |
| Currency swaps  | -   | 128  | -  | 128             |
| Foreign exchange forwards                               | -   | 2  | -  | 2               |
| Call options  | -   | -  | -  | -               |
| Total Derivative assets                                 | -   | 228  | -  | 228             |
| Separate account assets                                 | 2,295   | 1,434  | 477  | 4,206           |
| Total assets at fair value                              | <u>\$ 2,487</u>   | <u>\$ 1,725</u>                                  | <u>\$ 612</u>                                      | <u>\$ 4,824</u> |
| Liabilities at fair value                               |   |  |  |                 |
| Derivative liabilities                                  |   |  |  |                 |
| Interest rate swaps                                     | \$ -  | \$ 9   | \$ -   | \$ 9            |
| Inflation swaps   | -   | 2  | -  | 2               |
| Treasury locks  | -   | 25   | -  | 25              |
| Currency swaps  | -   | 107  | 9  | 116             |
| Foreign exchange forwards                               | -   | 57   | -  | 57              |
| Credit default swaps                                    | -   | 1  | -  | 1               |
| Total Derivative liabilities                            | -   | 201  | 9  | 210             |
| Separate account liabilities - derivatives <sup>1</sup> | -   | -  | -  | -               |
| Total liabilities at fair value                         | <u>\$ -</u>   | <u>\$ 201</u>                                    | <u>\$ 9</u>  | <u>\$ 210</u>   |

<sup>1</sup> Separate account contract holder liabilities are not included in the table as they are reported at contract value and not fair value in the Company's statutory financial statements.

The following table represents the balances of assets and liabilities measured at fair value as of December 31, 2009 (in millions):

|   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total           |
|---|---|--|--|-----------------|
| Assets at fair value                                    |   |  |  |                 |
| Preferred stocks  |   |  |  |                 |
| Non-redeemable preferred stock                          | \$ -  | \$ -   | \$ -   | \$ -            |
| Total Preferred Stocks                                  | -   | -  | -  | -               |
| Bonds   |   |  |  |                 |
| U.S. Corporates   | -   | 34   | -  | 34              |
| Residential mortgage-backed securities                  | -   | 50   | -  | 50              |
| Commercial mortgage-backed securities                   | -   | -  | -  | -               |
| Asset-backed securities                                 | -   | 2  | 3  | 5               |
| Total Bonds   | -   | 86   | 3  | 89              |
| Common Stock  | 215   | -  | 137  | 352             |
| Derivative assets                                       | -   | 79   | -  | 79              |
| Separate account assets                                 | 1,778   | 645  | 438  | 2,861           |
| Total assets at fair value                              | <u>\$ 1,993</u>   | <u>\$ 810</u>                                    | <u>\$ 578</u>                                      | <u>\$ 3,381</u> |
| Liabilities at fair value                               |   |  |  |                 |
| Derivative liabilities                                  | -   | 175  | -  | 175             |
| Separate account liabilities - derivatives <sup>1</sup> | -   | 1  | -  | 1               |
| Total liabilities at fair value                         | <u>\$ -</u>   | <u>\$ 176</u>                                    | <u>\$ -</u>  | <u>\$ 176</u>   |

<sup>1</sup> Separate account contract holder liabilities are not included in the table as they are reported at contract value and not fair value in the Company's statutory financial statements.

The table below presents a reconciliation of level 3 assets and liabilities for the year ended December 31, 2010 (in millions):

|  | Balance at<br>01/01/2010 | Transfers into<br>Level 3 <sup>(1)</sup> | Transfers out of<br>Level 3 <sup>(1)</sup> | Total gains or<br>(losses) included<br>in Net Income | Total gains<br>or (losses)<br>included in<br>Surplus | Purchases,<br>issuances,<br>sales and<br>settlements | Balance at<br>12/31/2010 |
|--|--------------------------|--|--|--|--|--|--------------------------|
| Bonds                                  |                          |  |  |  |  |  |                          |
| Residential mortgage-backed securities | \$ -                     | \$ -                                     | \$ -                                       | \$ -   | \$ -   | \$ -   | \$ -                     |
| Asset-backed securities                | 3                        | -  | (2)  | -  | -  | 2  | 3                        |
| Total Bonds                            | 3                        | -  | (2)  | -  | -  | 2  | 3                        |
| Common Stock                           | 137                      | -  | -  | -  | 1  | (6)  | 132                      |
| Separate Account Assets                | 438                      | -  | -  | 46   | 34   | (41)   | 477                      |
| Derivatives <sup>(2)</sup> (Net)       | (6)                      | -  | -  | -  | (3)  | -  | (9)                      |
| Total                                  | <u>\$ 572</u>            | <u>\$ -</u>                              | <u>\$ (2)</u>                              | <u>\$ 46</u>   | <u>\$ 32</u>   | <u>\$ (45)</u>                                       | <u>\$ 603</u>            |

<sup>(1)</sup> Transfers into or out of level 3 are reported at the value as of the beginning of the year in which the transfer occurred.

<sup>(2)</sup> Currency swaps were not carried at fair value in 2009.

The table below presents a reconciliation of level 3 assets and liabilities for the year ended December 31, 2009 (in millions):

|  | <u>Balance at<br/>01/01/2009</u> | <u>Transfers into<br/>Level 3 <sup>(1)</sup></u> | <u>Transfers out of<br/>Level 3 <sup>(1)</sup></u> | <u>Total gains or<br/>(losses) included<br/>in Net Income</u> | <u>Total gains<br/>or (losses)<br/>included in<br/>Surplus</u> | <u>Purchases,<br/>issuances,<br/>sales and<br/>settlements</u> | <u>Balance at<br/>12/31/2009</u> |
|--|----------------------------------|--|--|---|--|--|----------------------------------|
| Bonds                                  |                                  |  |  |   |  |  |                                  |
| U.S Corporates                         | \$ 1                             | \$ -   | \$ (1)   | \$ -  | \$ -   | \$ -   | \$ -                             |
| Residential mortgage-backed securities | 12                               | -  | (12)   | -   | -  | -  | -                                |
| Asset backed securities                | 3                                | -  | -  | -   | -  | -  | 3                                |
| Total Bonds                            | <u>16</u>                        | <u>-</u>   | <u>(13)</u>  | <u>-</u>  | <u>-</u>   | <u>-</u>   | <u>3</u>                         |
| Common Stock                           | 84                               | -  | (2)  | -   | 3  | 52   | 137                              |
| Separate Account Assets                | <u>13</u>                        | <u>442</u>                                       | <u>(1)</u>   | <u>13</u>   | <u>(53)</u>  | <u>24</u>  | <u>438</u>                       |
| Total                                  | <u>\$ 113</u>                    | <u>\$ 442</u>                                    | <u>\$ (16)</u>                                     | <u>\$ 13</u>  | <u>\$ (50)</u>   | <u>\$ 76</u>   | <u>\$ 578</u>                    |

<sup>(1)</sup> Transfers into or out of level 3 are reported at the value as of the beginning of the year in which the transfer occurred.

### Transfers between levels

Transfers between levels may occur due to changes in valuation sources, or changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. The Company's policy is to report the transfer as if it occurred at the beginning of the period.

#### *Transfers between Levels 1 and 2*

During the twelve months ended December 31, 2010, there were no transfers between Levels 1 and 2.

#### *Transfers into and out of Level 3*

The company's basis for transferring assets and liabilities into and or out of Level 3 is based on the changes in the observability of data.

Transfers into Level 3 would be the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized. Transfers out of level 3 are due to significant increases in market activity and significant inputs becoming observable.

Transfers into Level 3 were not significant during the years ended December 31, 2010 and 2009. Transfers out of Level 3 totaled \$2 million and \$15 million during the years ended December 31, 2010 and 2009, respectively.

### Determination of Fair Value

The Company has an established and well-documented process for determining fair value. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from third party pricing services, the remaining un-priced securities are submitted to independent brokers for prices,

and lastly securities are priced using an internal pricing model. The Company performs various analyses to ascertain that the prices represent fair value. Examples of procedures performed include, but are not limited to, initial and on-going review of third-party pricing services' methodologies, back testing recent trades, monitoring of trading volumes, new issuance activity and other market activities.

For Level 1 investments, valuations are generally based on observable inputs that reflect quoted prices for identical assets in active markets.

The fair value for Level 2 and Level 3 valuations are generally based on a combination of the market and income approach. The market approach generally utilizes market transaction data for the same or similar instruments, while the income approach involves determining fair values from discounted cash flow methodologies.

The following represents a summary of significant valuation techniques for assets and liabilities used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### **Level 1 Measurements**

#### *Common stock*

These securities are comprised of exchange traded U.S. and foreign common stock and mutual funds. Valuation of these securities is based on unadjusted quoted prices in active markets that are readily and regularly available.

#### *Separate account assets*

These assets are comprised of exchange traded common stocks and actively traded open-ended mutual funds with a daily NAV. The NAV can be observed by redemption and subscription transactions between third parties, or may be obtained from fund managers. Therefore the fair values of these investments have been reflected within Level 1 in the fair value hierarchy. Common stocks are generally traded on an exchange.

#### *Separate account liabilities – derivatives*

These liabilities are comprised of actively traded future contracts. Valuation of these contracts is based on unadjusted quoted prices in active markets that are readily and regularly available. Therefore, the fair values of these investments have been reflected within Level 1 in the fair value hierarchy.

### **Level 2 Measurements**

#### *Preferred stocks*

These securities are valued using the market approach in which market quotes are available but are not considered actively traded. Valuations are based principally on observable inputs including quoted prices in markets that are not considered active.

#### *Bonds*

The fair value of bonds is obtained from third party pricing services, and internal pricing models. Vendors generally use a discounted cash-flow model or a market approach. Typical inputs used by these pricing



sources include, but are not limited to: benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds, which the Company has determined are observable inputs.

Private placement securities are primarily priced by an internally developed discounted cash flow model. This model uses observable inputs with a discount rate based off spreads of comparable public bond issues, adjusted for liquidity, rating and maturity. The Company assigns a credit rating for private placement securities based upon internal analysis. The liquidity premium is based upon observable market transactions, while the maturity and rating adjustments are based upon data obtained from Bloomberg.

While the Company generally considers the public bond spreads, which are based on vendor prices, to be observable inputs, an evaluation is made of the similarities of private placement securities with the public bonds to determine whether the spreads utilized would be considered observable inputs for the private placement security being valued. Examples of procedures performed include, but are not limited to, initial and on-going review of third-party pricing services' methodologies, review of pricing statistics and trends, back testing recent trades and monitoring of trading volumes, new issuance activity and other market activities. These securities are classified as Level 2.

For certain private placement securities, which are below investment grade and not part of the Bloomberg data, comparable public bond issues are still used. However, the adjustments for maturity, rating and liquidity are calculated internally. If the impact of the liquidity adjustment, which usually requires the most judgment, is not significant to the overall value of the security, it is classified as Level 2.

#### *Derivative assets and derivative liabilities*

The fair value of derivative instruments is generally derived through valuation models which utilize observable market data. The market factors which have the most significant impact on the fair value of these instruments are U.S. swap rates and the exchange value of the U.S. dollar.

OTC derivatives are privately negotiated financial contracts. OTC derivatives classified within Level 2 in the fair value hierarchy are valued using models based on actively quoted or observable market input values obtained from external market data providers, third-party pricing vendors and/or recent trading activity. The selection of a particular model depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation model inputs include contractual terms, market prices, yield curves, credit curves, and, for options such as caps, floors and swaptions, measures of volatility. For OTC derivatives that trade in liquid markets, such as currency forwards, swaps and options, model inputs are observable in the market for substantially the full term and can be verified.

#### *Separate account assets*

These are assets primarily related to investments in U.S. governments and treasuries, corporate bonds, mortgage-backed securities and non-redeemable preferred stock. These separate account assets are valued and assigned within the fair value hierarchy, consistent with the methodologies described herein for similar financial instruments held within the general account of the Company.

### *Separate account liabilities*

For separate account derivative instruments, fair value is determined using the same procedures as the general account disclosed above.

## **Level 3 Measurements**

### *Bonds*

The valuation techniques for most Level 3 Bonds are generally the same as those described in level 2. However, if the investments are less liquid or are lightly traded, there is generally less observable market data, and therefore these investments will be classified as Level 3. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. In addition, certain securities are priced based upon internal valuations using significant unobservable inputs.

If the prices received from third party pricing services does not appear to reflect market activity, the Company may challenge the price. For securities which go through this formal price challenge process, a non-binding broker quote or internal valuation is used to support the fair value instead. The Company also uses non-binding broker quotes to fair value certain bonds, when the Company is unable to obtain prices from third party vendors.

### *Common stock*

These securities include equity investments with privately held entities, including a government organization, where the prices are derived from internal valuations or the Company's private placement model since the securities are not actively traded in an active market.

### *Separate account assets*

These are assets primarily related to limited partnership investments that are restricted with respect to transfer or withdrawal. In addition, these assets include equity investments such as warrants, where internal valuation methods are used to derive fair value, which may include unobservable inputs.

### *Derivative instruments*

OTC derivatives are privately negotiated financial contracts. OTC derivatives classified within Level 3 in the fair value hierarchy are valued using models based on unobservable market input values. The selection of a particular model depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation model inputs, includes contractual terms, market prices, yield curves, and credit curves.

## **NOTE 19 – SUBSEQUENT EVENTS**

On January 7, 2011, the Company announced definitive agreements with its Chinese joint venture partner Qingdao Haier Investment & Development Company Limited and Japanese insurer Meiji Yasuda Life Insurance Company to sell the Company's ownership stake in HAIER, the joint venture life insurance company formed between the Company and Qingdao Haier Investment & Development Company Limited in 2002. The sale closed on January 28, 2011.

On February 17, 2011, the Company announced a definitive agreement between NYLI and the Company's Thai affiliate (collectively "the New York Life Companies") and Siam Commercial Bank Public Company Limited ("SCB") to sell the New York Life Companies' ownership stake in Siam Commercial New York Life Insurance Public Company Limited, a joint venture life insurance company formed between the New York Life Companies and SCB in 2000. The sale is expected to close in March 2011.

The Company has evaluated subsequent events through March 16, 2011, the date these financial statements were available to be issued.