# *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 November 27, 2006, as supplemented by base prospectus supplements dated December 1, 2006 and March 8, 2007 (the "Offering Memorandum") prepared by New York Life Global Funding (the "Issuer") under the Issuer's global medium-term note program for the issuance of senior secured medium-term notes (the "Notes").

Application has been made to the Irish Financial Services Regulatory Authority as competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") for this Base Prospectus Supplement to be approved.

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 26, 2007, New York Life published its annual audited statutory statements (including any notes thereto, the "2006 and 2005 Statutory Financial Statements") the text of which is set out in Annex 1 to this document. Copies of such 2006 and 2005 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 dated November 27, 2006.

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

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

Base Prospectus Supplement dated April 2, 2007

# ANNEX 1

**NEW YORK LIFE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**
**(STATUTORY BASIS)**

**DECEMBER 31, 2006 and 2005**

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471 3000
Facsimile (813) 286 6000

**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, 2006 and 2005, and the related statutory statements of operations and 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, 2006 and 2005, 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.

PricewaterhouseCoopers LLP

February 28, 2007

**NEW YORK LIFE INSURANCE COMPANY**

**STATUTORY STATEMENTS OF FINANCIAL POSITION**

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | (in millions) | |
| **Assets** | | |
| Bonds | $ 64,411 | $ 61,233 |
| Mortgage loans | 8,082 | 7,735 |
| Common and preferred stocks | 8,287 | 8,033 |
| Real estate | 569 | 490 |
| Policy loans | 6,249 | 5,957 |
| Limited partnerships and other long-term investments | 5,758 | 5,212 |
| Cash, cash equivalents and short-term investments | 2,947 | 3,088 |
| Other invested assets | 570 | 112 |
| Total cash and invested assets | 96,873 | 91,860 |
| Deferred and uncollected premiums | 1,283 | 1,206 |
| Investment income due and accrued | 1,063 | 971 |
| Separate account assets | 6,115 | 5,921 |
| Funds held by reinsurer | 4,759 | 4,682 |
| Other assets | 3,611 | 3,242 |
| Total assets | $ 113,704 | $ 107,882 |
| **Liabilities and Surplus** | | |
| Liabilities: | | |
| Policy reserves | $ 65,695 | $ 63,537 |
| Deposit funds | 18,909 | 16,515 |
| Dividends payable to policyholders | 1,488 | 1,429 |
| Policy claims | 503 | 475 |
| Borrowed money | 1,551 | 1,736 |
| Separate account liabilities | 5,999 | 5,795 |
| Amounts payable under security lending agreements | 2,626 | 2,427 |
| Other liabilities | 3,234 | 3,152 |
| Interest maintenance reserve | 312 | 390 |
| Asset valuation reserve | 2,087 | 1,877 |
| Total liabilities | 102,404 | 97,333 |
| Surplus: | | |
| Surplus notes | 991 | 991 |
| Unassigned surplus | 10,309 | 9,558 |
| Total surplus | 11,300 | 10,549 |
| Total liabilities and surplus | $ 113,704 | $ 107,882 |

See accompanying notes to financial statements.

**NEW YORK LIFE INSURANCE COMPANY**

**STATUTORY STATEMENTS OF OPERATIONS**

| | Years Ended December 31, | |
|---|---|---|
| | **2006** | **2005** |
| | (in millions) | |
| Income | | |
| Premiums | $ 9,301 | $ 9,273 |
| Net investment income | 5,331 | 4,834 |
| Other income | 629 | 623 |
| Total income | 15,261 | 14,730 |
| Benefits and expenses | | |
| Benefit payments: | | |
| Death benefits | 2,024 | 1,943 |
| Annuity benefits | 987 | 950 |
| Health and disability insurance benefits | 346 | 340 |
| Surrender benefits | 1,946 | 1,813 |
| Payments on matured contracts | 2,637 | 2,850 |
| Other benefit payments | 900 | 618 |
| | 8,840 | 8,514 |
| Additions to reserves | 2,372 | 2,399 |
| Net transfers from Separate Accounts | (193) | (95) |
| Operating expenses | 1,960 | 1,817 |
| Total benefits and expenses | 12,979 | 12,635 |
| Gain from operations before dividends and federal income taxes | 2,282 | 2,095 |
| Dividends to policyholders | 1,546 | 1,477 |
| Gain from operations before federal income taxes | 736 | 618 |
| Federal income taxes | 242 | (101) |
| Net gain from operations | 494 | 719 |
| Net realized capital gains, after tax and transfers to interest maintenance reserve | 300 | 479 |
| Net income | $ 794 | $ 1,198 |

See accompanying notes to financial statements.

**NEW YORK LIFE INSURANCE COMPANY**

**STATUTORY STATEMENTS OF CHANGES IN SURPLUS**

| | December 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (in millions) | |
| Surplus, beginning of year | $ 10,549 | $ 9,708 |
| Net income | 794 | 1,198 |
| Prior period corrections | - | (5) |
| Change in net unrealized gains (losses) on investments | (46) | 390 |
| Change in net deferred income tax | 129 | (154) |
| Cumulative effect of changes in accounting principles | (1) | (272) |
| Change in asset valuation reserve | (210) | (128) |
| Change in nonadmitted assets | 74 | 68 |
| Change in surplus notes indemnification reserve | 11 | - |
| Repayment of surplus notes | - | (124) |
| Change in reserve valuation basis | (22) | (126) |
| Other adjustments, net | 22 | (6) |
| Surplus, end of year | $ 11,300 | $ 10,549 |

See accompanying notes to financial statements.

**NEW YORK LIFE INSURANCE COMPANY**

**STATUTORY STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (in millions) | |
| Cash flow from operating activities: | | |
| Premiums received | $ 9,236 | $ 9,160 |
| Net investment income received | 5,054 | 4,568 |
| Other | 359 | 298 |
| Total received | 14,649 | 14,026 |
| Benefits and other payments | 8,021 | 7,966 |
| Operating expenses | 2,043 | 1,840 |
| Dividends to policyowners | 1,487 | 1,406 |
| Federal income taxes | 582 | 61 |
| Other | (202) | (107) |
| Total paid | 11,931 | 11,166 |
| Net cash from operations | 2,718 | 2,860 |
| Cash flow from investing activities: | | |
| Proceeds from investments sold | 34,437 | 28,652 |
| Proceeds from investments matured or repaid | 19,584 | 19,579 |
| Cost of investments acquired | (57,675) | (52,966) |
| Net change in policy loans and premium notes | (292) | (163) |
| Net cash from investing activities | (3,946) | (4,898) |
| Cash flow from financing and miscellaneous activities: | | |
| Net borrowings under repurchase agreements | (89) | (623) |
| Net borrowings under credit agreements | (6) | 234 |
| Other changes in borrowed money | 44 | 42 |
| Net proceeds from deposit contracts | 931 | 2,426 |
| Repayment of surplus notes | - | (125) |
| Other miscellaneous sources | 207 | 582 |
| Net cash from financing and other activities | 1,087 | 2,536 |
| Net (decrease) increase in cash, cash equivalents and short-term investments | (141) | 498 |
| Cash, cash equivalents and short-term investments, beginning of year | 3,088 | 2,590 |
| Cash, cash equivalents and short-term investments, end of year | $ 2,947 | $ 3,088 |

See accompanying notes to financial statements.

# NEW YORK LIFE INSURANCE COMPANY

## STATUTORY STATEMENTS OF CASH FLOWS (continued)

| | Years Ended December 31, | |
|---|---|---|
| | 2006 | 2005 |
| | (in millions) | |
| Supplemental disclosures of cash flow information: | | |
| Non-cash investing and financing activities during the year: | | |
| Real estate acquired in satisfaction of debt | $ - | $ 35 |
| Conversion of debt securities to equity securities | 4 | 16 |
| Total non-cash transactions | $ 4 | $ 51 |

See accompanying notes to financial statements.

## NOTE 1 - NATURE OF OPERATIONS

New York Life Insurance Company ("the Company"), a mutual life insurance company, and its subsidiaries offer a wide range of insurance and investment products and services including life and health insurance, long term care, annuities, pension products, mutual funds (through its broker/dealer subsidiary), and other investments and investment advisory services. The Company, which is domiciled in New York State, is comprised of four primary business segments: Life and Annuity, Investment Management, Special Markets and International operations. Life and Annuity operations are conducted primarily through the Company and its wholly owned insurance subsidiaries New York Life Insurance and Annuity Corporation ("NYLIAC") and NYLIFE Insurance Company of Arizona ("NYLAZ"). Investment Management operations are conducted through the Company and various registered investment advisory subsidiaries of its wholly owned subsidiary, New York Life Investment Management Holdings LLC ("NYLIM"). Special Markets is a niche business area of the Company and NYLIAC that markets group life and health insurance to membership associations, long term care insurance and is the exclusive provider of life insurance to AARP. The Company and its subsidiaries market their products in all 50 of the United States, its territories and the District of Columbia, primarily through its agency force. The Company markets insurance and investment products in Asia and Latin America through New York Life International, LLC ("NYLI"), a wholly owned subsidiary. NYLIFE LLC is a wholly owned subsidiary of the Company, and is a holding company for certain 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 or permitted 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 ("GAAP").

The New York State Insurance Department 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 or permitted practices by the State of New York. Prescribed statutory accounting practices include state laws and regulations. New York State has certain prescribed accounting practices that differ from those found in NAIC SAP. 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.

Specifically, material differences for the Company include: (1) Electronic Data Processing ("EDP") equipment and operating software may only be admitted under New York Insurance Law if the individual cost exceeds fifty thousand dollars, whereas NAIC SAP allows these items to be admitted assets, subject to a 3% limitation of a Company's capital and surplus; (2) the value of aircraft held by a non-insurance subsidiary that has no significant ongoing operations is permitted to be carried as an admitted asset if approved by the Superintendent of Insurance, whereas NAIC SAP requires that it be excluded from the subsidiary's GAAP equity value carried in surplus; (3) goodwill, whether held directly or by a subsidiary (insurance or non-insurance) is nonadmitted and reduces surplus of the Company, whereas NAIC SAP permits goodwill to be carried as an asset; (4) New York State required the Company to establish an

indemnity reserve equal to 10% of the face value of its surplus note issuance. This reserve is not required under NAIC SAP; and (5) Prepaid real estate taxes may be capitalized and are admissible under New York Insurance Law, whereas NAIC SAP requires that they be capitalized, nonadmitted, and charged against surplus.

For the years ended December 31, 2006 and 2005, there were no differences in net income between NAIC SAP and practices prescribed by the State of New York. A reconciliation of the Company's surplus at December 31, 2006 and 2005 between NAIC SAP and practices prescribed by the State of New York is shown below (in millions):

| | 2006 | 2005 |
|---|---|---|
| Statutory Surplus, New York basis | $11,300 | $10,549 |
| State Prescribed Practices: | | |
| 1. EDP equipment, net | 36 | 36 |
| 2. Aircraft owned by subsidiary, net | (22) | (23) |
| 3. Goodwill of non-insurance subsidiaries | 405 | 215 |
| 4. Surplus notes indemnity reserve | 89 | 100 |
| 5. Prepaid real estate taxes | 1 | 1 |
| Statutory Surplus, NAIC SAP | $11,809 | $10,878 |

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 $585 million and $457 million in 2006 and 2005, respectively. These higher direct reserves reduced pre-tax net gain for the years ended December 31, 2006 and 2005 by approximately $37 million and $40 million, respectively.

**Change in Accounting Principles**

Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. 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.

Effective January 1, 2006, the Company adopted SSAP No. 93, "Accounting for Low Income Housing Tax Credit Property Investments", which establishes statutory accounting principles for investments in federal and certain state sponsored Low Income Housing Tax Credit (LIHTC) properties. SSAP No. 93 requires that the carrying value of LIHTC investments be based on an amortized cost basis, reducing the cost basis in proportion to the actual receipt and projected future stream of tax credits and deductible losses, as opposed to the underlying GAAP equity value of the real estate. At January 1, 2006, the cumulative effect of adopting SSAP No. 93 reduced surplus by $1 million.

Effective January 1, 2005, the NAIC issued SSAP 88 - "Investment in Subsidiaries Controlled and Affiliated (SCA) Entities, a replacement of SSAP 46", that provides new statutory accounting guidance for the valuation of; (1) foreign insurance subsidiaries, (2) certain non-insurance subsidiaries (domestic and foreign), and (3) limited partnerships where the Company has a controlling interest. The impact on beginning statutory surplus resulting from implementation of the accounting guidance decreased surplus by $57 million.

SSAP 88 also changed the accounting for goodwill on foreign insurance companies and non-insurance companies. For foreign insurance companies, goodwill is permitted up to 10% of the underlying audited GAAP equity. For most non-insurance companies, the value is determined using audited U.S. GAAP equity, with all goodwill and intangibles admissible. However, New York State did not adopt SSAP No. 88 in its entirety, in particular as it relates to goodwill.

New York State requires that goodwill held by a subsidiary (insurance and non-insurance) be excluded from U.S. GAAP equity when determining its statutory valuation. As a result, the Company non-admitted the remaining goodwill and intangible assets inherent in its statutory valuation of its subsidiaries, which reduced surplus by $215 million in 2005.

**Statutory vs. GAAP Basis of Accounting**

Financial statements prepared under the statutory basis of accounting as determined under New York State Insurance Law vary from those prepared under GAAP, primarily as follows: (1) non-public majority owned subsidiaries are generally carried at net equity value whereas under GAAP they would be consolidated; earnings of such subsidiaries are recognized in net investment income only when dividends are declared whereas under GAAP net income from such subsidiaries would be recognized when earned and dividends would be eliminated in consolidation. In addition, the Company's publicly-traded subsidiary, Express Scripts, Inc. ("ESI") is carried at market value, less a haircut, as defined in NAIC SAP, whereas under GAAP, the Company's investment in ESI is carried at market value. At December 31, 2005, ESI was recorded on the equity basis of accounting under GAAP, since the Company exercised significant influence; (2) 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; (3) life insurance reserves are based on different assumptions than they are under GAAP and dividends on participating policies are provided when approved by the Board of Directors, whereas under GAAP, they are provided when credited to the policies; (4) life insurance companies are required to establish an Asset Valuation Reserve ("AVR") by a direct charge to surplus to offset potential investment losses, whereas under GAAP, the AVR is not recognized and any losses on investments would be deducted from the assets to which they relate and would be charged to income; (5) investments in bonds are generally carried at amortized cost or values as prescribed by the New York State Insurance Department; under GAAP, investments in bonds that are classified as available for sale or trading, are generally carried at fair value, with changes in fair value charged or credited to equity or reflected in earnings, respectively; (6) realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the Interest Maintenance Reserve ("IMR") and amortized into investment income over the remaining life of the investment sold, whereas under GAAP, the gains and losses are recognized in income at the time of sale; (7) deferred income taxes excludes state income taxes and are admitted to the extent they can be realized within one year subject to a 10% limitation of capital and surplus with changes in the net deferred tax reflected as a component of surplus; under GAAP, deferred income taxes includes federal and state income taxes and a valuation allowance is recorded to reduce a deferred tax asset to that portion that is expected to more likely than not be realized and changes in the deferred tax are generally reflected in earnings; (8) certain reinsurance transactions are accounted for as reinsurance for statutory purposes and as financing transactions under GAAP, and assets and liabilities are reported net of reinsurance for statutory purposes and gross of reinsurance for GAAP; (9) certain assets, such as intangible assets, furniture and equipment, deferred taxes that are not realizable within one year and unsecured receivables are considered nonadmitted and excluded from assets on the statutory statements of financial position, whereas they are included under GAAP, subject to a valuation allowance, as appropriate; (10) 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 are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments, (11) goodwill is not permitted to be carried as an admitted asset, whereas under GAAP,

goodwill, which is considered to have an indefinite useful life, is tested for impairment and a loss recorded, where appropriate; (12) post-retirement obligations are measured for only vested employees and agents, whereas under GAAP, these costs are measured for both vested and non-vested employees and agents; (13) surplus notes are included as a component of surplus, whereas under GAAP, they are presented as a liability; (14) 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; statutory accounting practices do not contain a similar requirement; (15) 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 is bifurcated from the host contract and accounted for separately; and (16) under GAAP, the overfunded or underfunded status of defined benefit pension and postretirement plans are recognized as an asset or liability in the statement of financial position, and changes in the funded status are recognized through comprehensive income, whereas under statutory accounting, no such impacts are currently required to be reflected in the financial statements. The effects on the financial statements of the variances between the statutory accounting practices and GAAP are material to the Company.

The following table reconciles the Company's statutory surplus determined in accordance with accounting practices prescribed by the New York State Insurance Department with consolidated equity on a GAAP basis (in millions):

| | Years ended December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Statutory surplus | $ 11,300 | $ 10,549 |
| Asset valuation reserve | 2,087 | 1,877 |
| Statutory surplus and asset valuation reserve | 13,387 | 12,426 |
| Adjustments: | | |
| Inclusion of deferred policy acquisition cost asset ("DAC") | 6,113 | 5,189 |
| Removal of IMR liability | 351 | 458 |
| Policyholder dividends | 227 | 220 |
| Inclusion of net unrealized gains on investments | 1,700 | 3,246 |
| Inclusion of statutory non-admitted assets | 1,426 | 1,563 |
| Removal of deferred tax asset | (163) | (315) |
| Inclusion of goodwill | 556 | 543 |
| Investment in ESI and related liabilities | 19 | (1,747) |
| Re-estimation of future policy benefits and policyholder account balances | (2,738) | (3,258) |
| Inclusion of non-vested employee/agent benefit liabilities | (338) | (383) |
| Removal of surplus notes, net of indemnification reserve | (902) | (891) |
| Inclusion of the impact of recognizing previously unrecognized losses and prior year service costs associated with pension and postretirement benefits | (1,302) | - |
| Other | 360 | 459 |
| Total adjustments | 5,309 | 5,084 |
| Total GAAP equity | $18,696 | $17,510 |

The following table reconciles the Company's statutory net income determined in accordance with accounting practices prescribed by the New York State Insurance Department with net income on a GAAP basis (in millions):

| | Years ended December 31, | |
|---|---|---|
| | 2006 | 2005 |
| Statutory net gain from operations | $ 494 | $ 719 |
| Net realized capital gains | 300 | 479 |
| Statutory net income | 794 | 1,198 |
| | | |
| Adjustments: | | |
| Inclusion of DAC | (926) | (1,133) |
| Re-estimation of future policy benefits and policyholder account balances | (95) | (186) |
| Inclusion of deferred income tax expense | (445) | (2) |
| Policyholder dividends | 8 | 28 |
| Removal of IMR amortization | (48) | (83) |
| Inclusion of capitalization of DAC | 1,488 | 1,339 |
| Inclusion of statutory subsidiaries' net loss | 174 | 144 |
| Inclusion of GAAP net investment (losses) gains | 1,822 | (372) |
| Removal of dividend income from subsidiaries | (20) | (20) |
| Current tax and minority interest on net investment gains above | (413) | (114) |
| Inclusion of fair value adjustment of certain liabilities | 117 | 100 |
| Other | (158) | (44) |
| Total adjustments | 1,504 | (343) |
| | | |
| Total GAAP net income | $2,298 | $ 855 |

## 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.

### Reclassifications

Certain 2005 amounts in the accompanying financial statements and related notes have been reclassified to conform to the 2006 presentation. These reclassifications did not affect the total assets, liabilities, net income or surplus previously reported.

## Investments

Investments are valued in accordance with methods and values prescribed by the New York State Insurance Department. Bonds not backed by loans are stated at amortized cost using the interest method. Bonds in default are stated at the lower of amortized cost or fair value. For publicly traded bonds, estimated fair value is determined using quoted market prices. For bonds without a readily ascertainable fair value, the Company has determined an estimated fair value using a discounted cash flow approach, broker–dealer quotations or management's pricing model.

Loan-backed bonds and structured securities are valued at amortized cost using the interest method including anticipated prepayments at the date of purchase; changes in prepayment speeds and estimated cash flows from the original purchase assumptions are evaluated quarterly and are accounted for on a retrospective yield adjustment method.

Preferred stocks in "good standing" are valued at amortized cost. Preferred stocks "not in good standing" are valued at the lower of amortized cost or fair value. Fair values of preferred stocks are based on published market values, where available. For preferred stocks without a readily ascertainable market value, the Company has determined an estimated fair value using a discounted cash flow approach, broker-dealer quotations, or management's pricing model.

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

Unaffiliated common stocks are carried at fair value. Fair value has been determined using quoted market prices for publicly traded securities and broker-dealer quotations or management's pricing model for private placement securities. Unrealized gains and losses are reflected in surplus, net of deferred taxes.

Investments in stocks and membership interests of subsidiaries are carried as an asset, provided the entity's U.S. GAAP equity is audited; otherwise the entire investment is nonadmitted. Each of the Company's subsidiaries has a 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 statutory net assets; (2) foreign insurance operations are stated at GAAP equity adjusted for certain assets that are disallowed under the statutory basis of accounting; (3) non-insurance subsidiaries are carried at GAAP equity, adjusted for the removal of goodwill, 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 GAAP equity adjusted for the same items as foreign insurance subsidiaries; (4) the Company's 14.8% ownership in ESI, a publicly traded company is carried at a 2.5% discount to market value. Dividends and distributions from subsidiaries are recorded in investment income when declared and changes in the equity of subsidiaries are recorded as unrealized gains or 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 its estimated fair value, 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. Specific valuation allowances are based on the fair value of the collateral. Fair value is determined by discounting the projected cash flows for each property to determine the current net present value.

Real estate held for income production 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 cost to sell the property. Real estate joint ventures are recorded based on their underlying GAAP equity. Depreciation of real estate is calculated using the straight-line method over the estimated lives of the assets, generally 40 years. Costs of building improvements are depreciated over their estimated useful lives.

Policy loans are stated at the aggregate balance due, which approximates fair value, since loans on policies have no defined maturity and reduce amounts payable at death or surrender. The excess of the unpaid balance of the policy loan that exceeds the cash surrender value is nonadmitted.

Limited partnerships and limited liability companies which have audited U.S. GAAP equity are carried at the underlying audited GAAP equity of the investee. The Company nonadmits the entire investment where the underlying equity is not audited. 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 bonds, equity securities, limited partnerships and limited liability companies are adjusted for impairments in value deemed to be other than temporary, with the associated realized loss reported in net income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) whether the decline is substantial; 2) the financial condition and near-term prospects of the issuer; 3) the amount of time that the fair value has been less than cost; 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.

Derivative instruments that are effective hedges are valued consistent with the items being hedged. Investment income is recorded on an accrual basis. Amounts payable or receivable under interest rate and currency swap agreements are recognized as investment income or expense when incurred. Gains and losses related to contracts that are effective hedges on specific assets and liabilities are recognized in income in the same period as a gain and loss on the hedged asset or liability. Realized gains and losses are recognized in net income upon termination or maturity of derivative contracts. Options purchased or written are carried at fair value and are reported as assets or liabilities, as appropriate. Derivative instruments that do not qualify as effective hedges are carried at fair value with unrealized gains and losses reported in surplus, net of deferred taxes. Periodic payments received during the term of the swap are reported in realized gains or losses for hedges that are not highly effective.

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 carried 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 carried 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 long-term investments. Changes in the reserve 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 and derivative instruments which are amortized into net income over the expected years to maturity of the investments sold using the grouped method or the item being hedged by the derivative for those derivatives that qualify for hedge accounting.

**Loaned Securities and Repurchase Agreements**

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 obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the fair value of securities borrowed and loaned with additional collateral obtained as necessary.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as financing arrangements and are carried at fair value including accrued interest. It is the Company's policy to generally take possession or control of the securities purchased under these agreements to resell. For triparty repurchase agreements, the Company's designated custodian takes possession of the underlying collateral securities. Assets to be repurchased or resold are the same or substantially the same as the assets borrowed or sold. The fair value of the securities to be repurchased or resold is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure.

**Premiums and Related Expenses**

Life premiums and annuity considerations are taken into income over the premium-paying period of the policies. Commissions and other costs associated with acquiring new business are charged to operations as incurred. Guaranteed investment 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 on 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 Company determines that the minimum statutory reserves are inadequate.

**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. Deferred federal income tax assets ("DTAs") and 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. Net deferred tax assets are admitted to the extent permissible under NAIC SAP. Changes in DTAs and DTLs are recognized as a separate component of surplus.

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. Separate account liabilities generally reflect 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 New York State Insurance Department to be taken into account in determining an insurer's financial condition. Nonadmitted assets often include goodwill, intangible assets, furniture and equipment, agents' debit balances, and receivables over 90 days old. Changes to non-admitted assets are reported as a direct adjustment to surplus in the Statement 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, are 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 carried 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.

**Business Risks and Uncertainties**

The Company's investment portfolio consists principally of fixed income bonds as well as mortgage loans, policy loans, investments in subsidiaries, 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. For example, if interest rates rise, the securities in the Company's fixed-income portfolio generally will decrease in value. If interest rates decline, the securities in the fixed-income portfolio generally will increase in value. For various reasons, the Company may, from time to time, be required to sell certain investments at a price and a time when their fair value is less than their book value.

Mortgage loans, many of which have balloon payment maturities, and equity real estate, are generally illiquid and carry a greater risk of investment losses than investment grade bonds.

Changes in interest rates can have significant effects on the Company's profitability. Under certain circumstances of interest rate volatility, the Company is exposed to disintermediation risk and reduction in net interest spread or profit margins. In addition, mortgage prepayments, life insurance and annuity surrenders and bond calls are affected by interest rate fluctuations. 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 and that such volatility will not have a material adverse impact on the Company's business, financial position and results of operations.

Credit defaults and impairments may result in writedowns in the value of fixed income and equity securities held by the Company. Additionally, credit rating agencies may in the future downgrade certain issuers of fixed maturity securities held by the Company due to changing assessments of the credit quality of the issuers.

The Company regularly invests in mortgage loans, mortgage-backed bonds and other bonds 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 bonds 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.

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 and federal taxation, can significantly and adversely affect the insurance industry and the Company. The Company is unable to predict whether any of these changes will be made, whether any such administrative or legislative proposals will be adopted in the future, or the effect, if any, such proposals would have on the Company.

The development of policy reserves for the Company's products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense and investment experience. Such estimates are primarily based on historical experience and, in many cases, state insurance laws require

specific mortality, morbidity and investment assumptions to be used by the Company. Actual results could differ from those estimates. Management monitors actual experience, and where circumstances warrant, revises its assumptions and the related reserve estimates. However, these revisions do not result in reserves that are lower than the reserves that would be determined using the specific mortality, morbidity and investment assumptions required by state insurance laws.

The Company, along with its wholly owned subsidiary, NYLIFE LLC, has a 14.8% ownership in ESI, a publicly-traded entity, which is valued at a 2.5% discount to market value. The carrying amount at December 31, 2006 was $722 million. A significant decline in the value of this stock could have an adverse effect on the Company's surplus position. However, the Company has hedged its investment through the purchase of forward contracts, limiting its maximum exposure to $173 million based on a stock price of $71.60 per share (split-adjusted) at December 31, 2006.

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 estimated fair value of bonds as shown below are based on published market values, where available. For investments without readily ascertainable market values, fair value has been determined using one of the following sources: broker-dealer quotations, a discounted cash flow approach, or management's pricing model.

At December 31, 2006 and 2005, the maturity distribution of bonds was as follows (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Due in one year or less | $ 1,068 | $ 1,070 | $ 1,667 | $ 1,676 |
| Due after one year through five years | 9,128 | 9,294 | 7,049 | 7,203 |
| Due after five years through ten years | 15,159 | 15,167 | 15,126 | 15,383 |
| Due after ten years | 21,293 | 22,781 | 20,377 | 22,602 |
| Mortgage and asset backed securities: | | | | |
| U.S. government or U.S. government agency | 1,031 | 1,026 | 1,140 | 1,135 |
| Other mortgage backed securities | 10,276 | 10,357 | 9,369 | 9,477 |
| Other asset backed securities | 6,456 | 6,456 | 6,505 | 6,511 |
| Total | $ 64,411 | $ 66,151 | $ 61,233 | $ 63,987 |

At December 31, 2006 and 2005, the distribution of gross unrealized gains and losses on bonds was as follows (in millions):

| | 2006 | | | |
|---|---|---|---|---|
| | Carrying Amount | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| U.S. Treasury and U.S. Government Corporations | $ 4,704 | $ 363 | $ 37 | $ 5,030 |
| U.S. agencies, state and municipal | 2,483 | 315 | 8 | 2,790 |
| Foreign governments | 634 | 45 | 1 | 678 |
| Corporate | 39,858 | 1,545 | 563 | 40,840 |
| Other mortgage backed securities | 10,276 | 162 | 81 | 10,357 |
| Other asset backed securities | 6,456 | 24 | 24 | 6,456 |
| Total | $64,411 | $2,454 | $ 714 | $ 66,151 |

| | 2005 | | | |
|---|---|---|---|---|
| | Carrying Amount | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| U.S. Treasury and U.S. Government Corporations | $ 5,719 | $ 760 | $ 20 | $ 6,459 |
| U.S. agencies, state and municipal | 1,133 | 138 | 3 | 1,268 |
| Foreign governments | 444 | 31 | 1 | 474 |
| Corporate | 38,063 | 2,111 | 376 | 39,798 |
| Other mortgage backed securities | 9,369 | 193 | 85 | 9,477 |
| Other asset backed securities | 6,505 | 31 | 25 | 6,511 |
| Total | $61,233 | $ 3,264 | $ 510 | $63,987 |

## 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 mortgage loans funded during 2006 were: commercial loans, 7.57% and 4.81% (10.40% and 3.68% for 2005); residential loans, 7.38% and 4.50% (5.75% and 4.00% for 2005). For mortgage loans funded during 2006, 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 92.40%. 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 individuals.

At December 31, 2006 and 2005, the distribution of the mortgage loan portfolio by property type and geographic location was as follows (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Carrying Amount** | **% of Total** | **Carrying Value** | **% of Total** |
| Property Type: | | | | |
| Office Buildings | $2,432 | 30.1 % | $ 2,569 | 33.2 % |
| Retail Facilities | 2,244 | 27.8 | 2,160 | 27.9 |
| Apartment Buildings | 1,542 | 19.1 | 1,108 | 14.3 |
| Industrial | 1,531 | 18.9 | 1,545 | 20.0 |
| Residential | 240 | 3.0 | 214 | 2.8 |
| Other | 93 | 1.1 | 139 | 1.8 |
| Total | $ 8,082 | 100 % | $ 7,735 | 100 % |

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Carrying Amount** | **% of Total** | **Carrying Value** | **% of Total** |
| Geographic Location: | | | | |
| Central | $2,072 | 25.6 % | $ 2,032 | 26.3 % |
| South Atlantic | 2,038 | 25.2 | 1,993 | 25.8 |
| Middle Atlantic | 1,892 | 23.4 | 1,678 | 21.7 |
| Pacific | 1,551 | 19.2 | 1,427 | 18.4 |
| New England | 524 | 6.5 | 600 | 7.7 |
| Other | 5 | 0.1 | 5 | 0.1 |
| Total | $8,082 | $ 100 % | $ 7,735 | 100 % |

The fair value of the mortgage loan portfolio at December 31, 2006 and 2005 is estimated to be $8,314 million and $8,096 million, respectively. Fair value is determined by discounting the projected cash flow for each loan 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.

When a loan is determined to be in default (per the contractual terms of the loan), the accrued interest on the loan is recorded as investment income due and accrued if deemed collectible. 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 interest related to the loan is reported as a nonadmitted asset. If accrued interest on a mortgage loan in default is not collectible, the accrued interest is written off immediately and no further interest is accrued. The Company accrues interest income on impaired loans to the extent it is deemed collectible (delinquent less than 90 days) and the loan continues to perform under its original or restructured contractual terms. Interest income on non-performing loans is generally recognized on a cash basis.

Impaired mortgage loans at December 31, 2006 and 2005 were as follows (in millions):

| | 2006 | 2005 |
|---|---|---|
| Current year impaired loans with related allowance for credit losses | $ - | $ - |
| Related allowance for credit losses | - | - |
| Average recorded investment in impaired loans | - | 61 |
| Interest income recognized during the period | - | 2 |
| Interest income recognized on a cash basis during the period | - | 2 |

The related allowance for credit losses for the years ended December 31, 2006 and 2005 are summarized below (in millions):

| | 2006 | 2005 |
|---|---|---|
| Beginning balance | $ - | $ 34 |
| Additions charged to operations | - | 13 |
| Direct write-downs charged against the allowance | - | (9) |
| Recoveries of amounts previously charged off | - | (1) |
| Reduction due to sale | - | (37) |
| Ending balance | $ - | $ - |

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, 2006 and 2005, the Company did not have any investments in restructured mortgage loans and no allowance for credit losses for restructured mortgage loans. During the year ended December 31, 2006, no investments in restructured mortgage loans were foreclosed. During the year ended December 31, 2005, the Company had realized capital losses of $9 million for restructured loans, which were foreclosed during the year. No additional funds were committed to debtors whose terms have been modified in the years ended December 31, 2006 and 2005.

**Real Estate**

At December 31, 2006 and 2005, the Company's real estate portfolio, at carrying amount, consisted of the following (in millions):

| | 2006 | 2005 |
|---|---|---|
| Commercial: | | |
| Investment | $ 220 | $ 164 |
| Acquired through foreclosure | 47 | 46 |
| Properties for Company use | 302 | 280 |
| Total real estate | $ 569 | $ 490 |

Accumulated depreciation on real estate at December 31, 2006 and 2005 was $244 million and $232 million, respectively. Depreciation expense for 2006 and 2005 totaled $19 million and was recorded as an investment expense, a component of net investment income in the accompanying Statutory Statements of Operations. The Company did not have any losses due to changes in valuation allowances for real estate held for sale in 2006 or 2005.

### Limited Partnerships and Other Long-Term Investments

Limited partnerships and other long-term investments primarily consist of limited partnership interests in venture capital, leveraged buy-out funds, limited liability companies and other equity investments. The underlying net equity of these investments amounted to $5,758 million and $5,212 million at December 31, 2006 and 2005, respectively. Net unrealized gains of $56 million and $71 million for the years ended December 31, 2006 and 2005, respectively, were recorded on these investments. The Company recognized $39 million and $24 million in impairment write-downs on its investment in partnerships and limited liability companies during the years ended December 31, 2006 and 2005, respectively.

At December 31, 2006 and 2005, the Company had $186 million and $151 million of investments in limited partnerships and limited liability companies, respectively, that were nonadmitted. During the years ended December 31, 2006 and 2005, $35 million and $151 million of these amounts were charged to surplus.

The Company had $123 million and $71 million of investments in LIHTC at December 31, 2006 and 2005, respectively. The Company's unexpired tax credits on its investments in LIHTC expire within a range of less than 1 year to 13 years. The minimum holding period required for the Company's LIHTC investments extends from less than 1 year to 13 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 2006, there were no write-downs due to the forfeiture or ineligibility of tax credits.

During 2000, the Company and its affiliates formed the New York Life Short Term Investment Fund, LP ("NYL STIF") to improve short-term returns through greater flexibility to choose attractive maturities and enhanced portfolio diversification. The Company's share of investments in the NYL STIF totaled $1,648 million and $1,896 million at December 31, 2006 and 2005, respectively. The NYL STIF is primarily invested in short-term U.S. government and agency securities, CDs, bankers' acceptance notes and medium term floating rate notes, which maintained a weighted average maturity of thirty-four days.

Included in Other Long-Term Investments is a loan agreement the Company has with Madison Capital Funding LLC ("MCF"), an indirect wholly-owned subsidiary of the Company. Under the agreement, the Company provides funding to MCF that is used to acquire third party loans and equity investments. MCF loans were $1,458 million and $1,187 million at December 31, 2006 and 2005, respectively. See Note 6 "Related Party Transactions" for a more detailed discussion.

### Common and Preferred Stocks

Investments in subsidiaries and membership interests totaled $4,406 million and $4,590 million at December 31, 2006 and 2005, respectively. The Company records its share of gains or losses from subsidiaries as unrealized gains or losses. In 2006 and 2005, the Company recorded net unrealized gains (losses) of $458 million and $870 million, respectively, which includes net unrealized gains (losses) attributable to ESI, from both direct and indirect holdings, of $(379) million and $741 million, respectively. 2006 net unrealized gains include the reversal of cumulative unrealized gains of $235 million on the sale of 4 million unencumbered shares of ESI discussed in Note 4. As discussed in Note 14 – Commitments and Contingencies – Borrowed Money, the Company has entered into a forward contract that obligates the Company to transfer a portion of these net unrealized gains to a third party. At December 31, 2006, a gain of $134 million was reflected as addition to net unrealized capital gains under the forward contract. At December 31, and 2005, a loss of $501 was reflected as reductions to net unrealized capital gains under the same forward contract.

Investments in unaffiliated common stocks totaled $3,596 million and $3,087 million at December 31, 2006 and 2005, respectively. In 2006 and 2005, the Company recorded net unrealized gains of $214 million and $34 million, respectively.

The carrying amount and fair value of preferred stocks at December 31, 2006 was $285 million and $308 million, respectively. The carrying amount and fair value of preferred stock at December 31, 2005 was $356 million and $383 million, respectively.

**Assets on Deposit or Pledged as Collateral**

Assets with a carrying value of $272 million and $254 million at December 31, 2006 and 2005, 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. ESI common stock valued at $768 million and $894 million, at December 31, 2006 and 2005, respectively, were maintained as compensating balances or pledged as collateral for bank loans and other financing agreements.

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

The components of net investment income for the years ended December 31, 2006 and 2005 were as follows (in millions):

| | 2006 | 2005 |
|---|---|---|
| Bonds | $ 3,825 | $ 3,452 |
| Mortgage loans | 559 | 562 |
| Affiliated common stocks | 20 | 20 |
| Unaffiliated common and preferred stocks | 107 | 117 |
| Real estate | 83 | 86 |
| Limited partnerships | 414 | 277 |
| Policy loans | 363 | 349 |
| Other long-term investments | 174 | 146 |
| Short-term investments | 164 | 98 |
| Derivatives | (3) | 21 |
| Other | 22 | 17 |
| Gross investment income | 5,728 | 5,145 |
| Investment expenses | (445) | (394) |
| Net investment income | 5,283 | 4,751 |
| Amortization of IMR | 48 | 83 |
| Net investment income, including IMR | $ 5,331 | $ 4,834 |

Due and accrued investment income is excluded on the following bases: Bonds- excluded when collection is uncertain; Stocks -generally excluded when amounts are over 90 days past due; Mortgage loans - excluded when the loan is delinquent more than 90 days or collection is uncertain; Real estate - excluded when rents are over 90 days past due or collection is uncertain; Limited partnerships -excluded when collection is 90 days past due or considered uncertain, and; Derivative instruments- excluded when collection is 90 days past due or considered uncertain. $312 thousand and $43 thousand of due and accrued investment income was excluded from net investment income in 2006 and 2005, respectively.

For the years ended December 31, 2006 and 2005, realized capital gains and losses on sales computed under the specific identification method were as follows (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Gains** | **Losses** | **Gains** | **Losses** |
| Bonds | $ 204 | $ 180 | $ 288 | $ 229 |
| Mortgage loans | 1 | - | 2 | 46 |
| Affiliated common stock | 211 | - | - | - |
| Unaffiliated common and preferred stock | 426 | 92 | 289 | 107 |
| Real estate | 3 | - | 586 | 1 |
| Other long-term investments | 18 | 45 | 42 | 45 |
| Derivative instruments and Other | 183 | 228 | 56 | 61 |
| | $ 1,046 | $ 545 | $ 1,263 | $ 489 |
| Net realized capital gains before tax and transfers to the IMR | $ 501 | | $ 774 | |
| Less: | | | | |
| Capital gains tax | (231) | | (223) | |
| Net realized capital gains (losses) after tax transferred to the IMR | 30 | | (72) | |
| Net realized capital gains after tax and transfers to the IMR | $ 300 | | $ 479 | |

In 2006, the Company sold 4 million unencumbered shares of ESI common stock, which generated a $110 million after tax realized capital gain.

In October 2005, the Company sold its investment in an apartment complex (known as "Manhattan House") for $623 million, which generated a $582 million pre-tax realized capital gain.

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

| | 2006 | 2005 |
|---|---|---|
| Bonds | $ (15) | $ (60) |
| Mortgage loans | (-) | (9) |
| Unaffiliated common and preferred stocks | (31) | (31) |
| Other long-term investments | (39) | (24) |
| | $ (85) | $ (124) |

Proceeds from investments in bonds sold were $14,570 million and $16,286 million for the years ended December 31, 2006 and 2005, respectively.

The following table presents the Company's gross unrealized losses and fair values for bonds and equities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in an unrealized loss position, at December 31, 2006 and 2005 (in millions):

**2006**

| | Less than 12 months | | Greater than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| **Bonds** | | | | | | |
| U.S. Treasury and U.S. Government Corporations | $ 944 | $ 15 | $ 793 | $ 22 | $ 1,737 | $ 37 |
| U.S. agencies, state, and municipal | 109 | - | 162 | 8 | 271 | 8 |
| Foreign governments | 33 | - | 31 | 1 | 64 | 1 |
| Corporate | 6,535 | 114 | 10,600 | 449 | 17,135 | 563 |
| Other mortgage-backed bonds | 1,649 | 11 | 2,820 | 70 | 4,469 | 81 |
| Other asset-backed bonds | 1,222 | 5 | 1,029 | 19 | 2,251 | 24 |
| **Total Bonds** | 10,492 | 145 | 15,435 | 569 | 25,927 | 714 |
| **Equity Securities (Unaffiliated)** | | | | | | |
| Common Stock | 179 | 8 | - | - | 179 | 8 |
| Preferred Stock | 26 | - | 16 | 1 | 42 | 1 |
| **Total Equity Securities** | 205 | 8 | 16 | 1 | 221 | 9 |
| **Total temporarily impaired securities** | $ 10,697 | $ 153 | $ 15,451 | $ 570 | $ 26,148 | $ 723 |

**2005**

| | Less than 12 months | | Greater than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| **Bonds** | | | | | | |
| U.S. Treasury and U.S. Government Corporations | $ 929 | $ 13 | $ 197 | $ 7 | $ 1,126 | 20 |
| U.S. agencies, state, and municipal | 201 | 3 | - | - | 201 | 3 |
| Foreign governments | 27 | - | 15 | 1 | 42 | 1 |
| Corporate | 9,797 | 235 | 2,533 | 141 | 12,330 | 376 |
| Other mortgage-backed bonds | 4,065 | 69 | 422 | 16 | 4,487 | 85 |
| Other asset-backed bonds | 2,365 | 15 | 531 | 10 | 2,896 | 25 |
| **Total Bonds** | 17,384 | 335 | 3,698 | 175 | 21,082 | 510 |
| **Equity Securities (Unaffiliated)** | | | | | | |
| Common Stock | 369 | 21 | - | - | 369 | 21 |
| Preferred Stock | 7 | - | - | - | 7 | - |
| **Total Equity Securities** | 376 | 21 | - | - | 376 | 21 |
| **Total temporarily impaired securities** | $ 17,760 | $ 356 | $ 3,698 | $ 175 | $ 21,458 | $ 531 |

At December 31, 2006, bonds represented approximately 99% of the Company's total unrealized loss amount, which was comprised of approximately 3,180 different securities. Equity securities comprised the remaining 1%, consisting of 139 securities.

Bonds that were in an unrealized loss position less than twelve months at December 31, 2006, represent $145 million or 20% of the Company's total unrealized loss, and bonds in an unrealized loss position greater than twelve months represent $569 million or 79% of the Company's total unrealized loss. Of the total amount of bond unrealized losses, $663 million or 92% 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 $60 million or 8% of the Company's total unrealized losses. Unrealized losses on investment grade securities are principally related to changes in interest rates or changes in sector spreads from date of purchase. The continued rise in interest rates in 2006 over 2005 levels has contributed to the decline in value of our bond investments as follows:

**U.S. Treasury and Government Corporations and Agencies.** The unrealized losses on the company's investments in U.S. Treasury obligations and direct obligations of U.S. corporations and agencies were $37 million or 5% of the Company's unrealized losses. These were spread across 258 securities and the decline in value was caused by interest rate increases. The contractual terms of these investments are guaranteed by the full faith and credit of the U.S. Government. Because the Company has the ability and intent to retain the investment 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, 2006.

**Corporate Bonds.** Unrealized losses on corporate bonds were $563 million or 79% percent of the total bond unrealized losses. The amount of unrealized losses on the Company's investment in corporate bonds is spread over 1,911 individual securities with varying interest rates and maturities. Corporate securities that were priced below 95% of the security's amortized cost represented $265 million or 37% of the total bond unrealized losses. These unrealized losses are principally due to changes in interest rates and were spread across all industry sectors with no one sector experiencing a disproportionate amount of losses over other sectors. The industry sectors with the largest unrealized losses on securities that were priced below 95% of the security's amortized cost were electric utilities ($42 million), finance ($24 million), banking ($14 million) and gas utilities ($12 million). Because the securities continue to meet their contractual payments and the Company has the ability and intent to retain the investment 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, 2006.

**Mortgage-Backed Securities.** Unrealized losses on mortgage-backed securities were $81 million or 11% percent of the total bond unrealized losses. The amount of unrealized losses on the Company's investment in mortgage-backed securities was due to increases in interest rates. These losses are spread across approximately 621 fixed and variable rate investment grade securities. Mortgage-backed securities that were priced below 95% of the security's amortized cost represented $6 million or 8% of the total unrealized losses for mortgage-backed securities. The decline in market value is attributable to changes in interest rates and all contractual payments remain current, the Company has the ability and intent to retain the investment 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, 2006.

**Asset-Backed Securities.** Unrealized losses on asset-backed securities were $24 million or 3% percent of the total bond unrealized losses. The unrealized losses on these investments are due to changes in interest rates. These losses are spread across 359 securities. The Company measures its asset-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. When the fair value of the securities are below amortized cost and there are negative changes in estimated future cash flows, the securities are deemed impaired and a realized loss is recognized in net income in the accompanying Statutory Statement of Operations. The Company also evaluates these

securities for impairments based on facts and circumstances, even if there has been no negative change in estimated future cash flows. The Company did not consider these investments to be other than temporarily impaired at December 31, 2006.

## NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative financial instruments to manage interest rate, currency, and market risk. These derivative financial instruments include foreign exchange forward contracts, commodity and interest rate and equity options, equity total return swaps, interest rate swaps, credit default swaps and currency swaps. 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.

To further minimize risk, credit support annexes are negotiated as part of swap documentation entered into by the Company with counterparties. The credit support annex requires that a swap counterparty post collateral to secure that portion of its anticipated swap obligation in excess of a specified threshold. The threshold declines with a decline in the counterparties' rating. Collateral received is invested in short-term investments.

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 master netting arrangements exist, in the event of default on the part of the counterparty, credit exposure is defined as the fair value of contracts in a gain position at the reporting date. Credit exposure to counterparties where a master 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, 2006 and 2005, the Company held collateral for derivatives of $352 million and $171 million, respectively. Credit risk exposure in a net gain position, net of offsets and collateral, was $181 million and $134 million at December 31, 2006 and 2005, respectively.

### 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 of 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.

Cash flow hedges hedge the variability of cash flows related to floating rate securities, securities that are exposed to foreign exchange risk, and liabilities that are exposed to foreign exchange risk. 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. 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 hedges the forecasted purchases of fixed rate securities. For 2006 and 2005, there were no gains and losses related to cash flow hedges of forecasted transactions that have been discontinued because it was no longer probable that the original forecasted transactions would occur by the end of the originally specified time period.

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.

For derivative instruments which hedge the foreign currency exposure of a net investment in a foreign operation that meet the criteria of an effective hedge, the change in the fair value is reflected in unrealized gains and losses as part of the foreign currency translation adjustment. Derivatives that do not meet the criteria of an effective hedge that are hedging the net investment of a foreign operation are carried at fair value with changes in fair value recorded in surplus as unrealized gains and losses, net of deferred tax. Unrealized losses for derivatives that meet the criteria for an effective hedge were $31 million and $32 million for the years ended December 31, 2006 and 2005, 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 fixed-rate and floating-rate 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, 2006 are between 1 year and 30 years to maturity. At December 31, 2005, such contracts were between 2 years and 30 years to maturity. The Company does not act as an intermediary or broker in interest rate swaps.

Fair values of interest rate swaps were $74 million and $92 million at December 31, 2006 and 2005, respectively, based on the net present value of cash flows discounted at current rates. At December 31, 2006 and 2005, the carrying value of interest rate swaps was $13 million and $16 million, respectively.

Interest rate option 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 an agreed upon interest rate level be reached. Payments will continue to increase under the option contract until an agreed upon interest rate ceiling. Changes in market values of open contracts are recognized in surplus as unrealized gains or losses, net of deferred taxes. At December 31, 2006, the Company had 1 open contract at a notional amount of $920 million with a fair value and carrying value of $3 million. At December 31, 2005, the Company had 1 open contract at a notional amount of $920 million with a fair value and carrying value of $5 million.

The following table summarizes the notional amounts and credit exposures of interest rate related derivative transactions (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Notional Amount | Credit Exposure | Notional Amount | Credit Exposure |
| Interest Rate Swaps | $3,151 | $74 | $2,049 | $92 |
| Interest Rate Options | $ 920 | $ 3 | $ 920 | $ 5 |

**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. At December 31, 2006 the Company had 66 open contracts for foreign currency swaps in 8 currencies at a notional amount of $6,848 million, with a fair value of $374 million and a carrying value of $451 million. At December 31, 2005 the Company had 40 open contracts for foreign currency swaps in 7 currencies at a notional amount of $4,346 million, with a fair value of $58 million and a carrying value of $(20) million.

The Company’s foreign exchange forward contracts involve the exchange of 8 currencies at a specified future date and at a specified price. The average term of the contracts is three to six months. No cash is exchanged at the time the agreement is entered into. At December 31, 2006, the Company had 56 open foreign exchange forward contracts at a notional amount of $282 million, with a fair value and carrying value of $(2) million, which has been recorded as a liability in the accompanying Statutory Statements of Financial Position. At December 31, 2005, the Company had 18 open foreign exchange forward contracts at a notional amount of $166 million, with a carrying value and a fair value of $(1) million.

The Company did not have any outstanding purchased or written foreign currency options as of December 31, 2006 and December 31, 2005.

**Market Risk Management**

The Company has entered into equity swaps and options to minimize exposure to the market risk associated with underlying equities and liabilities. There are upfront fees paid or received related to option contracts at the time the agreements are entered into. At December 31, 2006, the Company had one equity option contract at a notional value of $1 million with a fair value and carrying value of $0.1 million. At December 31, 2005, the Company had 15 equity option contracts at a notional value of $6 million and a fair value and carrying value of $23 thousand. The Company did not have any outstanding equity swaps at December 31, 2006. At December 31, 2005, the Company had 1 total return equity swap at a notional amount of $39 million and a fair value and a carrying value of $(0.2) million.

The Company also uses commodity options to hedge against the impact of higher oil prices on limited partnership investments. At December 31, 2006, the Company had 14 commodity options with a notional amount of $2,938 million, and a fair value and carrying value of $50 million. At December 31, 2005 the Company had 12 commodity options at a notional amount of $2,384 million and a fair value and carrying value of $40 million.

**Replication Transactions**

The Company has used derivatives as part of replicated synthetic transactions, primarily credit default swaps. No cash is exchanged at the time the agreement is entered into. At December 31, 2006, the Company had no outstanding credit default swaps or total return equity swaps used as replications. At December 31, 2005, the Company had 17 open derivative contracts at a notional amount of $170 million, with a fair value of $(1) million and a carrying value of $0.

**Income Generation**

The Company seeks to increase profits and to mitigate losses in underlying equity positions by selling covered call options. At December 31, 2006, the Company had one written covered call option with a notional value of $11 million and a fair value and carrying value of $(21) thousand, which generated income of $11 thousand. The Company did not have any written options at December 31, 2005 used for income generation.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

For the years ended December 31, 2006 and 2005, the Company made the following capital contributions to its insurance and holding company subsidiaries (in millions):

| | 2006 | 2005 |
|---|---|---|
| NYLIM | $204 | $ 6 |
| NYLI | 173 | 96 |
| HAIER | 8 | 4 |
| Total | $385 | $106 |

During 2006, the Company received $7 million from NYLIFE LLC, $1 million from NYLIM and $4 million from NYLI as returns of capital.

During 2006, the Company received dividend distributions from NYLIFE LLC and NYLIAC of $8 million and $12 million, respectively. During 2005, the Company received dividend distributions from NYLIM of $20 million. Dividend distributions are included in net investment income on the Statutory Statements of Operations.

Pursuant to the plan of liquidation adopted in 2001, New York Life International, Inc. was dissolved effective December 31, 2005. Effective December 31, 2005, New York Life International, Inc.'s Taiwan and Argentina subsidiaries were transferred to New York Life International, LLC.

On April 27, 2005, NYLI and the Company entered into an Investment Participation Agreement related to NYLI's direct investment in 95% of the Class C shares of the New York Life International India Fund (Mauritius) LLC. In accordance with the Investment Participation Agreement, the Company advanced $4 million to NYLI towards the partial purchase price of such Class C shares for the right to receive a 52.63% beneficial interest in NYLI's interest in such shares. In addition, the Company agreed to fund expenses attributable to such beneficial interest and also agreed to receive any distribution annually through NYLI and participate in any capital call relating to the payment of management fees and other fund expenses by funding payment directly to NYLI on a pro-rata annual basis.

The Company has a loan agreement with NYLI dated April 1, 2006 (which replaced a prior agreement dated April 1, 2005) associated with proceeds deposited with the Company from capital contributions to NYLI. NYLI did not have an immediate need for the cash and as a result, loaned the proceeds to the Company to earn a return based on the general account investments. Interest is credited quarterly at an effective annual interest rate of 5.15% 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, 2007, but either party may also terminate this arrangement with a minimum three months' notice. During 2006 and 2005, interest expense of $4 million and $2 million, respectively, was capitalized to the loan resulting in an outstanding payable to NYLI of $87 million at December 31, 2006.

During August 2003, the Company transferred without recourse several private placement debt securities to Madison Capital Funding ("MCF"). MCF is a wholly-owned subsidiary of NYLIM Holdings LLC, 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. At December 31, 2006 and 2005, the outstanding balance payable to the Company totaled $22 million and $24 million, respectively. During 2006 and 2005, the Company received interest payments from MCF totaling $2 million each year, which is included in Net Investment Income on the accompanying Statutory Statements of Operations.

In March 2005, the Company formed five entities in which the Company has a controlling interest: Tribeca Holdings I LLC ("Tribeca I"), Bluewater Holdings I LLC ("Bluewater I"), Gramercy Holdings I LLC ("Gramercy I"), Union Investments I LP ("Union I") and 29 Park Investments No. 1 Limited ("29 Park No. 1"). These entities were formed to facilitate 29 Park No. 1's 65% participation, in an aggregate purchase of a $364 million par value pool of investment grade, US dollar denominated medium term notes ("MTNs") issued by ten foreign issuers and arranged on behalf of 29 Park No. 1 by Barclays Bank plc ("Barclays"). To fund the purchase of the MTNs, on May 26, 2005, the Company purchased ten credit-linked notes issued by Tribeca I for a total purchase price of $356 million, which amount was simultaneously loaned by Tribeca I to Union I, who in turn contributed such funds to 29 Park No. 1, for its purchase of ten MTNs with a total principal value of $364 million. The other entities, Bluewater I and Gramercy I, each had ancillary roles in these investment arrangements.

In March 2006, the Company participated in another aggregate purchase of $98 million par value pool of investment grade, MTN's issued by two foreign issuers and arranged on behalf of 29 Park No. 1 by Barclays Bank plc ("Barclays"). To fund the purchase of the MTNs, on March 1, 2006, the Company purchased two credit-linked notes issued by Tribeca I for a total purchase price of $96 million, which amount was simultaneously loaned by Tribeca I to Union I, who in turn contributed such funds to 29 Park No. 1, for its purchase of two MTN's having a total principal value of $98 million.

The Company has a revolving loan agreement dated April 16, 2001, as amended, to provide funding to MCF in an amount not to exceed the lesser of $1,800 million or 3% of the Company's admitted assets as of December 31 the prior year. Terms of the loan specify that quarterly interest be paid on 85% of the outstanding balance in cash based on the 90 day LIBOR rate plus a spread based on an agreed formula, with interest on the remaining 15% compounded quarterly. Effective June 1, 2003, the MCF loan agreement was amended to provide that a portion of the loan used to acquire equity investments would earn interest at 10% per annum, payable quarterly. The principal balance and compounded interest is not due until maturity in April 2011. The Company recorded $101 million and $72 million in interest income for the years ended December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the Company had outstanding loans receivable from MCF of $1,435 million and $1,163 million, respectively. These amounts are included with Other Long-Term Investments on the accompanying Statutory Statements of Financial Position.

The Company executed a promissory note with NYLIFE LLC, dated August 16, 2001, whereby NYLIFE LLC loaned the Company $239 million. The note has a par value of $243 million and an interest rate of 3.3% per annum. Interest on the note is payable quarterly until maturity on August 22, 2011. During 2006 and 2005, the Company made $8 million in coupon interest payments each year. At December 31, 2006 and 2005, the amount due under this note, which is included with Borrowed Money on the accompanying Statutory Statements of Financial Position, totaled $242 million, and included $1 million of accrued interest for each year. During 2006 and 2005, the Company made interest payments of $8 million.

New York Life Capital Corporation ("NYLCC"), a wholly-owned subsidiary of NYLIFE LLC, has a credit agreement with the Company, as amended on January 1, 2006, whereby NYLCC has agreed to make loans to the Company in an aggregate amount not exceeding $3 billion at any time, from proceeds from the issuance of commercial paper. During 2006 and 2005, the Company recorded interest expense of $20 million and $14 million, respectively. At December 31, 2006 and 2005, the Company had a loan payable to NYLCC of $494 million and $500 million, respectively, which is included with Borrowed Money on the accompanying Statutory Statements of Financial Position.

On April 1, 2000, the Company has entered into Investment Advisory and Administrative Services Agreements with its affiliate, New York Life Investment Management LLC, to provide investment advisory and administrative services to the Company. At December 31, 2006 and 2005, the total cost to the Company for these services amounted to $98 million and $103 million, respectively.

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 $1,056 million and $963 million for the years ended December 31, 2006 and 2005, respectively, were incurred by the Company and billed to its subsidiaries.

At December 31, 2006 and 2005, the Company reported a net amount of $238 million and $168 million, respectively, due from subsidiaries and affiliates. Generally, the terms of the settlement require that these amounts be settled in cash within ninety days.

As of December 31, 2006, an executive of the Company was also a director of ESI. As of December 31, 2005, an executive and a retired executive of the Company were also directors of ESI. ESI is a pharmacy benefit management company that periodically performs services for, or has other transactions with the Company. Such transactions are entered into on terms comparable to those that would be available to unrelated third parties and are not material to the Company's financial condition or results of operations.

The Company has purchased various Corporate Owned Life Insurance policies from affiliated entities 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, 2006 and 2005, the cash surrender value of these policies amounted to $2,519 million and $2,261 million, respectively, and is included with Other Assets on the accompanying Statutory Statements of Financial Position and in Change in net unrealized gains on investments on the Statutory Statements of Changes in Surplus.

The Company owns all rights, title, interest in, and to certain structured settlement annuity contracts issued by its subsidiary NYLIAC. The carrying value of the annuity contracts is based upon the actuarially determined value of the obligations under the structured settlement contracts (noted below), which generally have some life contingent benefits.

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, 2006 and 2005, the carrying value of the annuity contracts and the corresponding obligations amounted to $155 million and $153 million, respectively.

The Company compensates 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, 2006 and 2005, $14 million and $17 million, respectively, was paid to NYLIAC.

**NOTE 7 – SIGNIFICANT SUBSIDIARY**

NYLIAC is engaged in the life and annuity businesses. A summary of NYLIAC's statutory basis statement of financial position at December 31, 2006 and 2005 and results of operations for the years then ended are as follows (in millions):

| | 2006 | 2005 |
|---|---|---|
| **Assets:** | | |
| Bonds | $ 37,274 | $ 34,942 |
| Mortgage loans and real estate | 4,122 | 3,552 |
| Separate account assets | 17,744 | 14,800 |
| Other | 7,827 | 7,022 |
| Total assets | $ 66,967 | $ 60,316 |
| **Liabilities and Surplus:** | | |
| Policy reserves | $ 35,115 | $ 32,096 |
| Separate account liabilities | 17,681 | 14,729 |
| Other liabilities | 11,847 | 11,334 |
| Capital and surplus | 2,324 | 2,157 |
| Total liabilities and surplus | $ 66,967 | $ 60,316 |
| **Results of Operations:** | | |
| Net gain from operations | $ 248 | $ 229 |
| Net realized capital gain (losses) | 4 | 2 |
| Net income | $ 252 | $ 231 |

## NOTE 8 - INSURANCE LIABILITIES

### Policy Reserves And Deposit Funds Liabilities

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

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.

Tabular Interest credited to policy reserves for all other lines of business, except group annuities has been determined by formula as described in the NAIC instructions. For group annuities, tabular interest has been determined from the basic data for the calculation of policy reserves. The Tabular less Actual Reserve Released has been determined by formula as described in the NAIC instructions for all lines of business. The Tabular Cost for Individual Life Insurance for 7 Year Term, for certain Survivorship Whole Life policies, and for ancillary coverages 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 Tabular Interest on funds not involving life contingencies is generally the interest actually credited to or accrued on such funds.

At December 31, 2006 and 2005, the Company had $8,799 million and $8,065 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.

GICs with life contingencies totaled $3,900 million and $4,390 million with a weighted average interest rate of 4.65% and 4.76% at December 31, 2006 and 2005, respectively. The weighted average remaining maturity was 2 years, 3 months and 2 years, 2 months at December 31, 2006 and 2005, respectively. Withdrawal prior to maturity is generally subject to 60 days deferral of payment and involves penalties if interest rates increased since contract issuance.

Deposit fund liabilities include GICs without life contingencies (i.e. funding agreements) issued by the Company, including those funding agreements issued to special purpose entities ("SPE") and totaled $16,080 million and $13,676 million at December 31, 2006 and 2005 respectively. The weighted average interest rate was 4.96% and 4.47% at December 31, 2006 and 2005, respectively. The weighted average remaining maturity was 2 years, 7 months and 2 years, 7 months at December 31, 2006 and 2005, respectively. Withdrawal prior to maturity is generally not permitted.

Included with funding agreements are amounts sold to SPEs which purchase the funding agreements with the proceeds of medium term notes having payment terms substantially identical to the funding

agreements issued to the SPE. At December 31, 2006 and 2005, the balance under funding agreements sold by the Company to the SPEs was $9,692 million and $7,525 million, respectively.

The weighted average interest rate for all GICs was 4.90% and 4.54% at December 31, 2006 and 2005, respectively. Similarly, the combined weighted average remaining maturity was 2 years, 6 months and 2 years, 6 months, at December 31, 2006 and 2005, respectively.

For funding agreements backing medium term notes, fair values are based on available market prices for the notes. For other GICs and annuities certain, 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 dividend accumulations and other deposit contracts, fair value is equal to account value. The fair value of the Company's deposit fund liabilities at December 31, 2006 and 2005 were $18,911 million and $16,594 million, respectively.

In June 2006, the Company strengthened disability claim reserves by $22 million, which were charged to surplus as a change in valuation basis. However, since the disability income block is 100% reinsured on a modified coinsurance basis, the surplus charge is offset by a reimbursement from the reinsurer through net gain. The reserve basis change is associated with extending the expected runoff of prior year claims.

In 2005, AARP Group Life reserves were strengthened for two blocks of business by $7 million to provide additional reserve adequacy. Reserves for guaranteed acceptance products, which were valued using the 1980 CSO Table without adjustment, were increased to reflect the use of mortality rates to a level consistent with experience. Also, reserves on major plans previously valued at a 4.5% interest rate were strengthened by reducing the valuation interest rate to 4%.

During 2005, in light of the low interest rate environment, the Company lowered the valuation interest rates on structured settlement contracts with a 2004 year of issue, resulting in an increase in statutory reserves. The change in reserve valuation basis resulted in a $119 million charge to surplus for the year ended December 31, 2005.

The Company has a $16 million liability at December 31, 2006 ($16 million at December 31, 2005) relating to Guaranteed Separate Accounts and Synthetic GICs valued under New York State Regulation 128, which generally requires that a liability be accrued when the market value of the guaranteed separate accounts is less than the minimum value of contractual liabilities. The Company records the change in this liability as a component of surplus. Accordingly, $0.4 million of gains and $27 million of gains were recorded in surplus for the years ended December 31, 2006 and 2005, respectively.

The following table reflects the withdrawal characteristics of annuity reserves and deposit fund liabilities (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total |
| Subject to discretionary withdrawal: | | | | |
| With market value adjustment | $7,295 | 18% | $7,486 | 19% |
| At market value | 3,652 | 9 | 3,503 | 9 |
| Total with adjustment or at market value | 10,947 | 27 | 10,989 | 28 |
| At book value without adjustment | 1,977 | 5 | 1,974 | 5 |
| Not subject to discretionary withdrawal provisions | 28,376 | 68 | 25,631 | 67 |
| Total annuity reserves and deposit fund liabilities | $41,300 | 100% | $38,594 | 100% |

## NOTE 9 - SEPARATE ACCOUNTS

### Guaranteed Separate Accounts

The Company currently maintains guaranteed separate accounts with assets of $3,400 million and $3,646 million at December 31, 2006 and 2005, respectively. Of these amounts, $4 million and $3 million were maintained each year in supplemental separate accounts at December 31, 2006 and 2005, 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 provides 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 the years ended December 31, 2006 and 2005, the Company reflected changes of $(0.3) million and $(5) million related to undistributed gains and losses on these contracts in Other adjustments, net, on the accompanying Statutory Statements of Changes in Surplus.

### Non-Guaranteed Separate Accounts

The Company currently maintains non-guaranteed separate accounts with assets of $2,715 million and $2,274 million at December 31, 2006 and 2005, 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, 2006 and 2005 is as follows (in millions):

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Indexed | Non-indexed Guarantee Less than/Equal to 4% | Non-indexed Guarantee More than 4% | Non-guaranteed Separate Accounts | Total |
| Premiums and considerations | $ - | $ 908 | $ - | $ 109 | $ 1,017 |
| Reserves: | | | | | |
| For accounts with assets at: | | | | | |
| Market value | $ 890 | $ 78 | $ - | $ 2,684 | $ 3,652 |
| Amortized cost | - | 2,396 | - | - | 2,396 |
| Total reserves | $ 890 | $ 2,474 | $ - | $ 2,684 | $ 6,048 |
| By withdrawal characteristics: | | | | | |
| With market value adjustment | $ - | $ 2,396 | $ - | $ - | $ 2,396 |
| At market value | 890 | 78 | - | 2,684 | 3,652 |
| Total reserves | $ 890 | $ 2,474 | $ - | $ 2,684 | $ 6,048 |

| | 2005 | | | | |
|---|---|---|---|---|---|
| | Indexed | Non-indexed Guarantee Less than/Equal to 4% | Non-indexed Guarantee More than 4% | Non-guaranteed Separate Accounts | Total |
| Premiums and considerations | $ - | $ 853 | $ - | $ 98 | $ 951 |
| Reserves: | | | | | |
| For accounts with assets at: | | | | | |
| Market value | $ 1,179 | $ 82 | $ - | $ 2,242 | $ 3,503 |
| Amortized cost | - | 2,129 | - | - | 2,129 |
| Total reserves | $ 1,179 | $ 2,211 | $ - | $ 2,242 | $ 5,632 |
| By withdrawal characteristics: | | | | | |
| With market value adjustment | $ - | $ 2,129 | $ - | $ - | $ 2,129 |
| At market value | 1,179 | 82 | - | 2,242 | 3,503 |
| Total reserves | $ 1,179 | $ 2,211 | $ - | $ 2,242 | $ 5,632 |

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

| | 2006 | 2005 |
|---|---|---|
| Transfers as reported in the Separate Accounts Statement: | | |
| Transfers to Separate Accounts | $ 1,017 | $ 952 |
| Transfers from Separate Accounts | (1,220) | (1,058) |
| Reinsurance Assumed | 10 | 11 |
| Net transfers from the Separate Accounts | $ (193) | $ (95) |

## NOTE 10 - FEDERAL INCOME TAXES

Significant components of current federal income taxes incurred for the years ended December 31, 2006 and 2005 were as follows (in millions):

| | 2006 | 2005 |
|---|---|---|
| Current income tax expense: | | |
| Current year U.S. income tax | $ 241 | $ (102) |
| Current year foreign income tax | 1 | 1 |
| Current income tax incurred | 242 | (101) |
| Capital gains tax incurred | 231 | 223 |
| Total current income taxes incurred | $ 473 | $ 122 |

The components of the net deferred tax asset are as follows (in millions):

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| Gross deferred tax assets (DTAs) | $ 1,928 | $ 2,003 |
| Gross deferred tax liabilities (DTLs) | (692) | (865) |
| Net deferred tax asset | $ 1,236 | $ 1,138 |
| Net deferred tax assets non-admitted | $ 720 | $ 648 |
| Net admitted deferred tax asset | $ 516 | $ 490 |
| Increase (Decrease) in net deferred taxes nonadmitted | $ 72 | $ (264) |

Net deferred tax assets are nonadmitted primarily because they are not expected to be realized within one year of the balance sheet date. The admitted portion of the net deferred tax asset is included in Other Assets on the accompanying Statutory Statements of Financial Position.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows (in millions):

| | December 31, 2006 | December 31, 2005 | Increase/ (Decrease) |
|---|---|---|---|
| DTAs resulting from book/tax differences in: | | | |
| Policy reserves | $ 423 | $ 552 | $ (129) |
| Deferred acquisition costs | 451 | 425 | 26 |
| Employee and agent benefits | 516 | 504 | 12 |
| Nonadmitted assets | 82 | 63 | 19 |
| Dividend provision | 381 | 350 | 31 |
| Investments | 53 | 94 | (41) |
| Other | 22 | 15 | 7 |
| Gross deferred tax asset | $ 1,928 | $ 2,003 | $ (75) |
| DTLs resulting from book/tax differences in: | | | |
| Investments | $ 692 | $ 865 | $ (173) |
| Gross deferred tax liability | $ 692 | $ 865 | $ (173) |
| Net deferred tax asset | $1,236 | $ 1,138 | $ 98 |
| Deferred tax on unrealized gains (losses) | | | $ 32 |
| Change in deferred income tax | | | $ 130 |

The Company's income tax expense/(credit) for the years ended December 31, 2006 and 2005, 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):

| | **2006** | **2005** |
|---|---|---|
| Net Gain From Operations after Dividends to Policyholders And Before Federal Income Taxes at 35% | $ 258 | $ 216 |
| Net realized capital gains at 35% | 175 | 270 |
| Amortization of IMR | (17) | (29) |
| Tax exempt income | (47) | (36) |
| Dividends from subsidiaries | (7) | (7) |
| Changes in reserve on account of change in valuation basis | (8) | (44) |
| Prior period corrections | - | (34) |
| Change in nonadmitted assets | (19) | (15) |
| Tax credits (net) | (41) | (50) |
| Contiguous country branch income | (4) | (7) |
| Accruals in surplus | 8 | (11) |
| Audit liability provision | 51 | 21 |
| Stock contribution to the New York Life Foundation | (5) | - |
| Other | (1) | 2 |
| Income Tax Incurred and Change in Net Deferred Tax Asset During Period | $ 343 | $ 276 |
| | | |
| Federal income taxes reported on the Statutory Statements of Operations | $ 242 | $ (101) |
| Capital gains tax incurred | 231 | 223 |
| Change in net deferred income tax | (130) | 154 |
| Total statutory income taxes | $ 343 | $ 276 |

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 1998 and is auditing tax years 1999 through 2001. 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 has no net operating loss carryforwards. The total income taxes incurred in current and prior years that will be available for recoupment in the event of future net losses are $397 million and $193 million related to December 31, 2006 and 2005, respectively.

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 NYLIM.

At December 31, 2006 and 2005 the Company recorded a current income tax payable of $80 million and $190 million, respectively, which was included in Other Liabilities in the accompanying Statutory Statements of Financial Position.

During 2006, the Company recorded a tax benefit of $1.5 million as a result of a change in the method of reserving for additional taxes from income tax audits from a reserve based on a percentage of incurred tax to a reserve based on an evaluation of specific exposures.

## NOTE 11 – REINSURANCE

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

Life insurance reinsured was 16% and 18% of total life insurance in-force at December 31, 2006 and 2005, respectively. The reserve reductions taken for life insurance reinsured at December 31, 2006 and 2005 were $285 million and $295 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 will retain 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 2006 and 2005 were $124 million and $148 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 taxes that is amortized into net gain over a twenty-year period. During 2006 and 2005, $3 million was amortized each year into net gain leaving $34 million at December 31, 2006 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, 2006 and 2005, less than $1 million and $6 million, respectively 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 $6 million and $(4) million for the years ended December 31, 2006 and 2005, respectively.

## NOTE 12 – SURPLUS

### Surplus Notes

On May 5, 2003, the Company issued Surplus Notes (“Notes”) with a principal balance of $1 billion, bearing interest at 5.875%, and a maturity date of May 15, 2033. Proceeds from the issuance of the Notes were $990 million, net of discount. The 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 these Notes is scheduled to be paid semiannually on May 15 and November 15 of each year. Cumulative interest paid through December 31, 2006 totaled $207 million.

As part of the Notes offering, the New York State Insurance Department required the Company to establish a special reserve in the amount of 10% of the face amount of the Notes, or $100 million. This reserve (reported in Other Liabilities on the accompanying Statutory Statements of Financial Position) 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 Notes. To date, there have been no claims. The reserve can be 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, and be completely eliminated after six years (on May 15, 2009), if no claims arise. Accordingly, the reserve was reduced by $11 million in 2006 and was reflected as an increase to surplus.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the Notes are not part of the legal liabilities of the Company. The Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds, which the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 5.875% Notes may be redeemed at the option of the Company at any time at the “make-whole” redemption price equal to the greater of the principal amount of the Notes to be redeemed, or the sum of the present values of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the Notes are to be redeemed, discounted to a semi-annual basis at the adjusted treasury rate plus 20 basis points.

At December 31, 2006 and 2005, there were no affiliates that held any portion of the Notes. At December 31, 2006, Citibank, Bank of New York and JPMorgan Chase Bank 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. At December 31, 2005, State Street Bank, Bank of New York and JPMorgan Chase Bank 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.

Previously, on December 15, 1993, the Company issued Notes with a principal balance of $300 million, bearing interest at 7.50% and a maturity date of December 2023. These Notes were also issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and were administered by U.S. Bank as registrar/paying agent. Proceeds from the issuance of the Notes were $297 million, net of related issuance costs. In 2001, $175 million of the 7.50% Surplus Note was repaid, resulting in an outstanding balance of $125 million. On January 13, 2005, the Company received approval from the Superintendent of Insurance of the State of New York ("Superintendent") to redeem the entire remaining outstanding par value of $125 million in Surplus Notes. The total redemption price paid on February 22, 2005 was $130 million consisting of the par value of the Surplus Notes, a premium of $4 million and accrued interest of $1 million.

### Other Surplus Adjustments

As part of the disposal of the Company's NYLCare operations to Aetna in 1998, a receivable was established for reimbursement of the Cost Stabilization Reserve (CSR) the Company was entitled to receive. The CSR represented the excess premiums previously paid to NYLCare to cover potential adverse experience or to reduce future premium levels. However, the receivable was inadvertently recorded twice resulting in an overstatement to assets and surplus of $5 million. Therefore, in 2005, one of the accruals was released and recorded as a prior period correction in surplus.

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

| | 2006 | 2005 |
|---|---|---|
| Regulation 128 reserve – Note 8 | $ 1 | $ 27 |
| Ceding commission – Note 11 | (3) | (3) |
| Additional minimum liability – Note 13 | 18 | (21) |
| Separate account surplus – Note 9 | - | (5) |
| Reinsurance in unauthorized companies – Note 11 | 6 | (4) |
| Total | $ 22 | $ (6) |

Cumulative unrealized gains, gross of deferred taxes, recognized in unassigned surplus was $642 million and $1,317 million, respectively, as of December 31, 2006 and 2005.

### 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 which are unavailable due to encumbrances or other third party interests. In addition, some assets are nonadmitted because they do not conform to the laws and regulations of New York. These assets are not recognized on 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, 2006 and 2005, respectively (in millions):

| | 2006 | 2005 | Increase (Decrease) |
|---|---|---|---|
| Overfunded pension asset | $ 883 | $ 1,080 | $ (197) |
| Net deferred tax asset | 720 | 648 | 72 |
| Furniture, equipment and EDP | 196 | 176 | 20 |
| Invested assets | 187 | 151 | 36 |
| Other | 81 | 85 | (5) |
| Total | $ 2,067 | $ 2,140 | $ (74) |

## 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 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 age (age 65), 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.

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 to the Company or its domestic life insurance subsidiaries on or after the effective date of the Plan, January 1, 1982.

Retirement Plan participants are entitled to annual pension benefits beginning at normal retirement date, which is the later of the last day of the month in which age 65 is attained 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%. Prior to termination (discussed below), the Company also maintained the NYLIC Excess Benefit Plan which was a nonqualified, unfunded arrangement that provided (i) benefits in excess of the maximum benefits that may be paid or accrued under the NYLIC Retirement Plan and (ii) amounts to certain eligible agents whose retirement benefit under the NYLIC Retirement Plan and the additional amount is less than their Senior NYLIC Income (income payable to an agent who has completed 20 full years under a N4, N5 or N6 NYLIC contract) so that their total retirement benefit under the NYLIC Retirement Plan is equivalent to their Senior NYLIC Income. In 2005, the Company entered into a settlement agreement in Lucich v. New York Life Insurance Co., No. 01-CIV-1747 (S.D.N.Y.). Pursuant to the settlement agreement, (i) the NYLIC Retirement Plan's benefit formula was amended and prospectively changed for certain participants resulting in certain non-qualified payments becoming payable from the Plan on a prospective basis; (ii) the NYLIC Excess Benefit Plan was terminated; and (iii) the Company established the NYLIC 415 and 401(a)(17) Excess Benefit Plan, which is a nonqualified, unfunded arrangement to provide benefits in excess of the maximum benefits that may be paid or accrued under the NYLIC Retirement Plan.

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 no greater than the maximum amount deductible for federal income tax purposes. The Company made contributions to the Pension Plan in 2006 and 2005 of $0 million and $145 million, respectively. Contributions to the Retirement Plan in 2006 and 2005 were $125 million and $95 million, respectively.

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.

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. 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 agents and employees to help protect nonqualified payments thereunder 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 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 coverages. Employees who retired on or after January 1, 1993 may be required to contribute towards medical (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 or third prior), age, level of benefits and location of residence.

Agents who retired under the Nylic Retirement Plan prior to January 1, 1993 and agents who retired under the Nylic 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 or reach age 70 as of December 31, 1992 may be required to contribute towards medical (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 as the "VEBA Trusts"). A portion of the cost of the medical (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 Retired Employee VEBA Trust and the Retired Agent VEBA Trust, which are used to partially fund postretirement health and life benefits other than pensions. Prefunding contributions to the Retired Employee VEBA Trust totaling $2.4 million and

$1.5 million were made in 2006 and 2005, respectively. Prefunding contributions to the Retired Agent VEBA Trust totaling $0 million and $0.7 million were made in 2006 and 2005, respectively.

The assets of each VEBA Trust are invested in the mutual funds issued by MainStay Funds, Inc., in Trust Owned Life Insurance ("TOLI") and in government securities. NYLIM is the investment advisor of these MainStay Funds, Inc. These TOLI policies are Corporate Sponsored Universal Life ("CSUL") and Corporate Sponsored Variable Universal Life ("CSVUL") issued by NYLIAC. CSVUL policy premiums are invested in variable products of mutual funds managed by NYLIM.

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 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 introduces 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. The reduction in the APBO related to the Act was $122 million and $112 million as of December 31, 2006 and 2005, respectively. For the year ended December 31, 2006 the reduction of net periodic postretirement benefit cost was $19 million due to reductions in service cost of $5 million, interest cost of $6 million, and amortization of net actuarial loss of $8 million due to the subsidy. During 2006, the Company received $1 million in Medicare Part D subsidy payments.

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):

| | Pension Plan Benefits | | Other Postretirement Plan Benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Change in benefit obligation:** | | | | |
| Benefit obligation at beginning of year | $4,085 | $ 3,617 | $ 920 | $ 819 |
| Service cost | 114 | 96 | 37 | 29 |
| Interest cost | 216 | 212 | 48 | 47 |
| Contributions by plan participants | - | - | 3 | 2 |
| Actuarial (gains)/losses | (159) | 322 | 45 | 86 |
| Benefits paid | (175) | (170) | (58) | (51) |
| Plan amendments | 13 | 8 | (3) | (12) |
| Benefit obligation at end of year[1] | $4,094 | $4,085 | $ 992 | $ 920 |
| **Change in plan assets:** | | | | |
| Fair value of plan assets at beginning of year | $3,210 | $2,746 | $ 412 | $ 395 |
| Actual return on plan assets | 395 | 370 | 35 | 34 |
| Contributions by employer | 137 | 264 | 43 | 32 |
| Contributions by plan participants | - | - | 3 | 2 |
| Benefits paid | (175) | (170) | (58) | (51) |
| Fair value of plan assets at end of year[1] | $3,567 | $3,210 | $ 435 | $ 412 |
| Funded status | $ (527) | $ (875) | $ (557) | $ (508) |
| Unamortized prior service cost | 48 | 42 | 1 | 1 |
| Unrecognized net (gain)/loss | 1,048 | 1,445 | 306 | 277 |
| Remaining net obligation at transition | - | - | 50 | 62 |
| Contributions by employer | 4 | 2 | 12 | 10 |
| Intangible asset[2] | (1) | (5) | - | - |
| Accumulated charge to surplus | (36) | (53) | - | - |
| **Prepaid (accrued) benefit cost** | $ 536[2] | $ 556[2] | $ (188) | $ (158) |
| **Accumulated Benefit obligation for all defined pension plans at December 31[1]** | $ 3,667 | $ 3,598 | | |
| **Benefit obligation for non-vested participants[3]** | | | $ 260 | $ 278 |

[1] For both 2006 and 2005, a September 30th measurement date was used.

[2] Prepaid (accrued) benefit cost and the intangible asset are nonadmitted assets and are, therefore, not included in total assets on the Statutory Statements of Financial Position.

[3] 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.

An additional minimum liability adjustment is required when the accumulated benefit obligation exceeds plan assets or accrued pension liabilities. Increases or decreases in the additional minimum pension liability, less allowable intangible assets, net of tax benefit, are reported as adjustments to surplus. At December 31, 2006, the Company reflected an additional net minimum liability ("AML") of $35 million ($48 million in 2005) for the New York Life Excess Benefit Plan and $0 million for the NYLIC Excess Benefit Plan ($5 million in 2005). The change in the AML during 2006 and 2005 was reflected as an $18 million increase and a $(21) million decrease to surplus in 2006 and 2005, respectively.

In September 2006, the FASB issued SFAS No. 158, "Employees Accounting for Defined Benefit Pension and Other Post Retirement Plans – an amendment of FASB Statement No. 87, 88, 106 and SFAS No. 132(R) ("SFAS 158"). This statement requires an employer to prospectively recognize the overfunded or underfunded status of its defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. As of December 31, 2006, the NAIC had not opined on SFAS No. 158. As a result, no impact of this statement is reflected in the statutory financial statements at December 31, 2006.

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

| | **Pension Plan Benefits** | | **Other Postretirement Plan Benefits** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| **Components of net periodic benefit cost:** | | | | |
| Service cost | $ 114 | $ 96 | $ 37 | $ 29 |
| Interest cost | 216 | 212 | 48 | 47 |
| Expected return on plan assets | (251) | (236) | (30) | (31) |
| Amortization of net asset at transition | - | - | 9 | 10 |
| Amortization of (gains)/losses | 95 | 69 | 13 | 5 |
| Amortization of prior service cost/(credit) | 7 | 7 | 0 | - |
| Net periodic benefit cost | $ 181 | $ 148 | $ 77* | $ 60* |

* Includes postretirement costs billed to subsidiaries of $31 million and $25 million for each of the years ended December 31, 2006 and 2005, respectively.

Weighted-average assumptions used to determine benefit obligations at:

| | **Pension Plan Benefits** | | **Other Postretirement Plan Benefits** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Weighted-average assumptions used to determine benefit obligations*: | | | | |
| Discount rate | 5.75% | 5.40% | 5.75% | 5.40% |
| Rate of compensation increase: | | | | |
| Employees | 5.40% | 5.40% | 5.40% | 5.40% |
| Agents | 5.60% | 5.60% | 5.60% | N/A |

*For both 2006 and 2005, a September 30 measurement date was used.

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

| | Pension Plan Benefits | | Other Postretirement Plan Benefits | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Weighted-average assumption used to determine net periodic benefit cost: | | | | |
| Discount rate | 5.40% | 6.00% | 5.40% | 6.00% |
| Expected return on plan assets | 8.25% | 8.25% | 7.25%/7.75%** | 7.25%/7.75%%** |
| Rate of compensation increase: | | | | |
| Employees | 5.40% | 5.42% | 5.40% | 5.42% |
| Agents | 5.60% | 6.77% | 5.60% | N/A |

**Expected return on plan assets is 7.25% for health benefits and 7.75% for life benefits

The discount rates used to determine the Company's pension and other post retirement 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 or better by Moody's Investor Service, Inc. or a rating AA or better 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.

The expected 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 determination of the annual rate of increase in the per capita cost of covered health care benefits for medical and prescription drug plans is determined separately for participants under age 65 and for those age 65 and older. For dental plans, the annual rate of increase in the per capita cost utilizes a single rate for all participants.

In 2006, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 8% for all participants. The annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 12% for all participants. For the 2006 measurements, the rate was assumed to decline to 5% by 2010 for medical benefits and to 5% by 2014 for 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 thereafter.

In 2005, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 9.00% for all participants. The annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 13.00% for all participants. For the 2005 measurements, the rate was assumed to decline to 5.00% by 2010 for medical benefits and to 5.00% by 2014 for 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 5.00% for all participants and remain at that level thereafter.

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

| | 2006 One Percent Increase | 2006 One Percent Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 12 | $ (10) |
| Effect on accumulated postretirement obligations | 102 | (83) |

The weighted-average asset allocation for the agent and employee defined benefit pension plans at September 30, 2006 and 2005, and target allocations by asset category are as follows:

| | Target Allocation | Percentage Of Plan Assets | |
|---|---|---|---|
| | 2006 | 2006 | 2005 |
| Fixed Income | 40% | 42% | 45% |
| Equity Securities | 60 | 58 | 55 |
| Total | 100% | 100% | 100% |

Equity securities, including common stock, amount to $2,070 million (58% of total assets of the plans) and $1,779 million (55% of total assets of the plans) at September 30, 2006 and 2005, respectively.

The Investment Committees of the Agent and Employee defined benefit pension plans have established a broad investment strategy targeting an asset allocation of 60% equity and 40% fixed income. 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 allocation vs. the targets and makes adjustments as appropriate. The Committees review the investment performance of the GA Contract for each Plan and the separate accounts under each Plan's SA Contract to insure the assets are meeting each plan's objectives.

The Company's weighted-average asset allocation for the other postretirement benefit plan at September 30, 2006 and 2005, and target allocations by asset category under the VEBA Trusts are as follows:

| | Target Allocation Percentage | | Percentage of VEBA Trust Assets | | | |
|---|---|---|---|---|---|---|
| | 2006 | | 2006 | | 2005 | |
| | Health | Life | Health | Life | Health | Life |
| Fixed Income Securities | 30% | 30% | 39% | 29% | 43% | 28% |
| Equity Securities | 70 | 70 | 61 | 71 | 57 | 72 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% |

Equity securities, including common stock, amount to $269 million (64% of total VEBA Trust Life and Health assets) and $245 million (61% of total VEBA Trust Life and Health assets) at September 30, 2006 and 2005, respectively.

**Cash Flows**

The expected benefit payments for the Company's pension and postretirement plans for the years indicated are as follows (in millions):

| | Pension Plan Benefits | Other Post Retirement Plan Benefits | Estimated Federal Subsidy |
|---|---|---|---|
| 2007 | $188 | $68 | $(5) |
| 2008 | 199 | 73 | (5) |
| 2009 | 209 | 78 | (6) |
| 2010 | 220 | 84 | (7) |
| 2011 | 231 | 89 | (7) |
| 2012-2016 | 1,347 | 514 | (44) |
| Total | $2,394 | $907 | $(74) |

The Company does not expect to make any contributions to its qualified and non-qualified agent and employee defined benefit pension plans or to its other postretirement benefit plans in 2007.

**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, 2006 and 2005, the Company accrued a $24 million and $23 million obligation related to the funding of these benefits. The net periodic benefit cost associated with these programs in 2006 and 2005 was $7 million and $6 million, respectively.

**Defined Contribution Plans**

The Company maintains the Employee Progress-Sharing Investment Plan ("EPSI") which is a qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees (individuals eligible under the Company's Agents' Progress-Sharing Investment Plan are not eligible under EPSI). Under EPSI, participants may contribute (1) 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 highly compensated threshold of $95,000 based on 2005 total pay and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (2) 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 provides for additional pre-tax 401(k) "catch-up" contributions for participants age 50 and over ($5,000 for 2006 and $4,000 for 2005).

The Company annually determines the level of the Company's matching contributions to EPSI. In 2006 and 2005, the Company made matching contributions based on a specific percentage, 100% of participants' contribution up to 3% of base salary and eligible incentive pay. For 2006 and 2005, the Company's matching contributions to EPSI totaled $19 million and $18 million, respectively. The Company also maintains the Excess EPSI Plan for certain eligible participants, which is a nonqualified 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 Company also maintains the Agents' Progress-Sharing Investment Plan ("APSI") which is a 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 by entering into commission reduction agreements with the Company whereby a percentage of their compensation (for the 2006 plan year up to 7% for agents whose total annual compensation exceeds the highly compensated threshold of $95,000 based on 2005 total pay 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 provides for additional pre-tax 401(k) "catch-up" contributions for participants age 50 and over ($5,000 for 2006 and $4,000 for 2005).

The Company annually determines the level of the Company's contributions to APSI. Contributions are based on the participants' 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 2006 and 2005, the Company's contributions to APSI totaled $3 million and $2 million, respectively. The Company also maintains the Excess APSI Plan, which is a nonqualified, 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.

## NOTE 14 - COMMITMENTS AND CONTINGENCIES

### Support and Credit Agreements

The Company has a revolving loan agreement dated April 16, 2001, as amended, with MCF to provide funding to MCF in an amount up to $1,800 million. The amount loaned cannot exceed 3% of the Company's admitted assets of December 31 of the prior year. Refer to Note 6 for details regarding loans extended to MCF under this agreement.

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.

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 2006, 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 2006, 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, in which the Company may borrow from NYLIAC up to $490 million. During 2006, the credit facility was not used, no interest was paid and there was no outstanding balance due.

In connection with structured settlement agreements issued to its subsidiary, NYLIAC, the Company has guaranteed the payments due to unaffiliated third parties in the event of NYLIAC's insolvency. The Company's estimated maximum exposure under such agreements is approximately $4,863 million and $4,609 million at December 31, 2006 and 2005, respectively.

On August 16, 2001, NYLIFE LLC entered into an agreement with Credit Suisse ("CS"), formerly Credit Suisse First Boston International and Credit Suisse First Boston, referred to as Shared Appreciation Income Linked Securities ("SAILS"). Under the agreement, NYLIFE LLC has entered into a forward sale of certain of its shares of ESI. NYLIFE LLC may deliver up to 9 million shares of ESI common stock on August 22 or settle the transaction in cash instead of delivering shares. According to the terms of the agreement, NYLIFE LLC receives a minimum value of $27.03 per share and 100% of the appreciation in the shares up to $35.14 per share. CS will receive approximately 77% of the appreciation of ESI stock in excess of $35.14 per share. The market value for these ESI shares has been adjusted to reflect the terms of the agreement. The Company has guaranteed the obligations of NYLIFE LLC under the agreement with CS. The price per share and number of shares in the foregoing paragraph have been adjusted for a two for one stock split effective June 24, 2005.

In 2003, following the entering into of the SAILS II agreement with CS described in Note 14 – Borrowed Money, the Company agreed to lend CS up to 11,000,000 shares of ESI common stock. As of December 31, 2006, CS had borrowed 10,941,000 shares with a market value of $783 million. These transactions are generally collateralized with the right of offset against the Company's liabilities to CS, and to the extent the right of offset does not provide sufficient collateral, CS provides additional collateral which may consist of U.S. Government Securities, letters of credit or cash. At December 31, 2006, the carrying amount of the lent shares was $764 million.

At December 31, 2006 and 2005, contractual commitments to extend credit under commercial and residential mortgage loan agreements totaled $324 million and $373 million, respectively, at both fixed and variable rates of interest. These commitments are diversified by property type and geographic location.

At December 31, 2006 and 2005, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to $46 million and $166 million, respectively.

Unfunded commitments on limited partnerships and limited liability corporations, excluding MCF, amounted to $2,747 million and $1,831 million at December 31, 2006 and 2005, respectively. Unfunded commitments on LIHTC amounted to $177 million and $87 million at December 31, 2006 and 2005, 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 and/or other operations, including actions involving retail sales practices. The Company is also a defendant in a suit regarding employee and agent benefits where a portion of the case, specifically the breach of fiduciary claims, has been certified as a class action by agreement of the parties. The remainder of the claims in that suit have not been certified. 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):

| Year | Real Property | Equipment | Total |
|---|---|---|---|
| 2007 | $ 86 | $ 24 | $ 110 |
| 2008 | 82 | 17 | 99 |
| 2009 | 75 | 10 | 85 |
| 2010 | 69 | - | 69 |
| 2011 | 49 | - | 49 |
| Thereafter | 105 | - | 105 |
| Total | $ 466 | $ 51 | $517 |

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 $5 million in both 2006 and 2005. The agreement expires in November 2009, with automatic one-year renewals, unless terminated earlier. The aircraft is to be used by members of senior management for business travel, as approved by the Chairman and CEO. Personal use of the aircraft is limited to the current Chairman and CEO of Company, and the terms of such personal use, including reimbursement, have been approved by the Board of Directors of the Company.

Rent expense of all other leases for the years ended December 31, 2006 and 2005 amounted to $134 million and $119 million, respectively; of which, $67 million and $63 million were billed to subsidiaries in accordance with an intercompany cost sharing arrangement for the years ended December 31, 2006 and 2005, respectively.

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 NYLIM headquarters building. Under real property leases, the lessee has the option to purchase 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 noncancelable subleases, at December 31, 2006, is $2 million.

In connection with the sale of one of its Home Office properties in 1995, the Company has entered into an agreement to lease back a portion of the building through 2010, with total future lease obligations of $42 million as of December 31, 2006.

## Borrowed Money

At December 31, 2006 and 2005 the carrying value of borrowed money reported in the Statement of Financial Position was $1,551 million and $1,736 million, respectively. Borrowed money, generally carried at the unpaid principal balance and any interest payable, consisted of the following at December 31, 2006 and 2005 (in millions):

| | 2006 | 2005 |
|---|---|---|
| Loan Payable to New York Life Capital Corporation, various maturities, latest being March 13, 2007 (weighted average interest rate of 5.31 % and 4.27% for 2006 and 2005, respectively) See Note 6, "Related Party Transactions" | $494 | $ 500 |
| Loan payable to Shared Appreciation Income Linked Securities II, due April 28, 2008 (implicit rate of 2.27% on principal and appreciation above $33.26 per share on underlying ESI shares) | 718 | 845 |
| Loan payable to NYLIFE, LLC, due August 22, 2011 (coupon rate of 3.3%). See Note 6, "Related Party Transactions" | 242 | 242 |
| Repurchase agreements (average coupon rate of 0% and 5.18% for 2006 and 2005 respectively), See Note 14, "Commitments & Contingencies – Repurchase Agreements" | - | 89 |
| Loan Payable to NYLI, expires March 31, 2007 (coupon rate of 5.15% less management fee of 5.5 basis points) – See Note 6, "Related Party Transactions" | 87 | 60 |
| Note Payable to Aeolus Wind Power II LLC, due July 31, 2016 (fixed interest rate of 5.5%) – See Note 14, "Commitments and Contingencies – Borrowed Money" | 10 | - |
| Total borrowed money | $1,551 | $1,736 |

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 at December 31, 2006 was $10 million.

On April 28, 2003, the Company entered into an agreement with CS, referred to as Shared Appreciation Income Linked Securities II ("SAILS II"). Under this agreement, the Company may deliver up to 11 million shares of ESI common stock on April 28, 2008 or settle the transaction in cash instead of delivering shares. Upon entering into the transaction, the Company received $27.72 per share, or $305 million, less prepaid interest and offering costs, bringing net proceeds to $273 million. The Company is entitled to 100% of the appreciation up to $33.26 per share. Any appreciation in excess of $33.26 per share will be due to CS upon settlement (price per share and number of shares have been adjusted for a stock split effective June 24, 2005). At December 31, 2006, the outstanding balance payable by the Company was $718 million, including a liability of $422 million related to the appreciation in the stock's market value above $33.26 per share. No interest payments were made during 2006 or 2005.

## Securities Lending Program

The Company participates in securities lending programs whereby securities, which are included in the accompanying Statutory Statements of Financial Position, are loaned to third parties for the purpose of enhancing income on securities held. At December 31, 2006 and 2005, $2,607 million and $2,418 million, respectively, of the Company's bonds and stocks were on loan to others. The Company requires as collateral, a stated minimum percentage of the fair value of the securities on loan. If the securities being loaned are domestic, a minimum of 102% of its fair value is required. If foreign denominated, the

requirement is a minimum of 105% of its fair value. Such assets reflect the extent of the Company's involvement in securities lending, not the Company's risk of loss.

At December 31, 2006 and 2005, the Company recorded cash collateral received under these agreements of $2,626 million and $2,421 million, respectively, and established a corresponding liability for the same amount. The Company also holds collateral in the form of securities having a market value of $52 million and $60 million at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the Company had $52 million of restricted collateral.

**Repurchase Agreements**

The Company enters into agreements to purchase and resell securities for the purpose of enhancing income on the securities portfolio. At December 31, 2006, and December 31, 2005, the Company had agreements to sell and repurchase securities totaling $0 million and $89 million at an average coupon rate of 0% and 5.18%, respectively. Under agreements to sell and repurchase securities, the Company obtains the use of funds from a broker for generally one month. Cash collateral received is invested in short term investments and the offsetting collateral liability is considered fair value.

**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 remaining guaranty fund assessments against the Company of approximately $6 million, which have been accrued in Other Liabilities on the accompanying Statutory Statements of Financial Position.

**NOTE 15 – PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost less accumulated depreciation. Under New York State Insurance Law, the Company is required to nonadmit all furniture and EDP equipment where the individual cost is less than fifty thousand dollars. 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, 2006 and 2005 (in millions):

| | 2006 | | |
|---|---|---|---|
| | **Carrying Amount** | **Accumulated Depreciation** | **Depreciation** |
| Software | $192 | $ 84 | $ 14 |
| PC equipment | 31 | 22 | 3 |
| Web site development | 45 | 23 | 3 |
| Subtotal EDP | $268 | $ 129 | $ 20 |
| | | | |
| Office furniture | $132 | $109 | $5 |
| Telecommunications | 37 | 24 | 3 |
| Leasehold improvements | 76 | 54 | 4 |
| Subtotal Furniture | $245 | $187 | $12 |
| | | | |
| Total | $513 | $316 | $ 33 |

| | 2005 | | |
|---|---|---|---|
| | **Carrying Amount** | **Accumulated Depreciation** | **Depreciation** |
| Software | $145 | $ 54 | $ 9 |
| PC equipment | 24 | 16 | 3 |
| Web site development | 36 | 16 | 3 |
| Subtotal EDP | $205 | $ 86 | $ 15 |
| | | | |
| Office furniture | $126 | $ 104 | $ 5 |
| Telecommunications | 32 | 19 | 2 |
| Leasehold improvements | 70 | 48 | 4 |
| Subtotal Furniture | $228 | $171 | $ 11 |
| | | | |
| Total | $433 | $257 | $ 26 |

## NOTE 16 – WRITTEN PREMIUMS

Deferred and uncollected life insurance premiums at December 31, 2006 and 2005 were as follows (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Gross | Net of Loading | Gross | Net of Loading |
| Ordinary new business | $ 102 | $ 47 | $ 95 | $ 44 |
| Ordinary renewal | 1,003 | 939 | 976 | 905 |
| Group Life | 368 | 299 | 328 | 266 |
| Total | $ 1,473 | $ 1,285 | $1,399 | $ 1,215 |

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 the years ended December 31, 2006 and 2005, the Company nonadmitted $2 million and $9 million, respectively, of premiums that were over 90 days past due.

Premiums written by third party administrators during 2006 and 2005 totaled $609 million and $604 million, respectively.

## 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, 2006 and 2005. SSAP No. 27, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties (in millions):

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Assets: | | | | |
| Bonds | $64,411 | $66,151 | $61,233 | $63,987 |
| Mortgage loans | 8,082 | 8,314 | 7,735 | 8,096 |
| Common and preferred stocks | 8,287 | 8,310 | 8,033 | 8,060 |
| Real Estate | 569 | 878 | 490 | 778 |
| Policy Loans | 6,249 | 6,249 | 5,957 | 5,957 |
| Limited partnerships and other long-term investments | 5,758 | 5,944 | 5,212 | 5,364 |
| Cash, cash equivalents and short-term investments | 2,947 | 2,947 | 3,088 | 3,088 |
| Derivatives | 514 | 498 | 40 | 194 |
| Liabilities: | | | | |
| Deposit Fund Contracts: | | | | |
| Funding Agreements | 16,080 | 16,017 | 13,675 | 13,692 |
| Annuities Certain | 563 | 628 | 595 | 657 |
| Other | 2,266 | 2,266 | 2,244 | 2,244 |
| Borrowed money | 1,551 | 1,563 | 1,736 | 1,736 |

### Bonds

For publicly traded bonds, estimated fair value is determined using quoted market prices. For bonds without a readily ascertainable estimated fair value, the Company has determined an estimated fair value using a discounted cash flow approach, broker–dealer quotations or management's pricing model.

### 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.

### Real Estate

The estimated fair value of real estate is determined by discounting estimated future cash flows using market interest rates and or market appraised values. For real estate joint ventures, which are immaterial to the total real estate held, estimated fair value is assumed to approximate the carrying value.

### Policy Loans

Policy loans are stated at the aggregate balance due, which approximates estimated fair value, since loans on policies have no defined maturity and reduce amounts payable at death or surrender.

### Equity Securities

Estimated fair values of preferred stocks are based on published market values, where available. For preferred stocks without readily ascertainable market values, the Company has determined an estimated fair value using a discounted cash flow approach, broker-dealer quotations, or management's pricing model.

The estimated fair value of unaffiliated common stocks has been determined using quoted market prices for publicly traded securities and broker-dealer quotations or management's pricing model for private placement securities. The estimated fair value of affiliated common stock, excluding the Company's investment in ESI, is equal to the carrying value since these entities are not publicly traded and a reliable value cannot be determined.

### Limited Partnerships and Other Long-Term Investments

The estimated fair value of limited partnerships and limited liability companies is presumed to be equal to the underlying net equity of the investee since the underlying investments held by the partnerships are generally at fair value. Estimated fair value includes the underlying unaudited GAAP equity of limited partnerships that have been excluded from the carrying value since they are unaudited.

### Cash, Cash Equivalents and Short-Term Investments

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

### Derivatives

Estimated fair values are based on the net present value of cash flows discounted at current rates.

### Deposit Fund Contracts

For GICs and annuities certain, estimated 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, primarily 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. The statement value approximates estimated fair value, with the exception of the SAILS II agreement, as described in Note 14 – Commitments and Contingencies. The fair value of this agreement was $730 million at December 31, 2006.