

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
(GAAP BASIS)**

DECEMBER 31, 2007 and 2006

Report of Independent Auditors

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of equity and of cash flow present fairly, in all material respects, the financial position of New York Life Insurance Company and its subsidiaries (the "Company") at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 3 of the consolidated financial statements, the Company changed its method of accounting for uncertainty in income taxes and for deferred acquisition costs in connection with modifications or exchanges of insurance contracts and changed its measurement date for defined benefit pension and postretirement plans on January 1, 2007. Also as discussed in Note 3, the Company changed its method of accounting for defined benefit pension and other postretirement plans on December 31, 2006.



March 19, 2008

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	December 31,	
	2007	2006
	(in millions)	
ASSETS		
Fixed maturities (includes securities pledged as collateral that can be sold or repledged of \$5,114 in 2007 and \$3,230 in 2006)		
Available for sale, at fair value	\$112,667	\$108,450
Held to maturity, at amortized cost	366	294
Trading securities, at fair value	5,544	5,795
Equity securities (includes securities pledged as collateral that can be sold or repledged of \$3,371 in 2007 and \$1,703 in 2006)		
Unaffiliated, available for sale, at fair value	2,999	3,827
Affiliated	75	55
Trading securities, at fair value	3,808	2,057
Mortgage loans	14,558	12,462
Policy loans	7,540	7,049
Securities purchased under agreements to resell	2,505	1,318
Other investments	7,916	6,061
Total investments	157,978	147,368
Cash and cash equivalents	6,338	4,425
Deferred policy acquisition costs	6,616	6,113
Investment income due and accrued	1,666	1,647
Goodwill	554	556
Other assets	3,368	3,210
Separate account assets	21,863	19,024
Total assets	\$198,383	\$182,343
LIABILITIES AND EQUITY		
Policyholders' account balances	73,004	69,170
Future policy benefits	63,899	60,190
Dividends payable to policyowners	1,367	1,280
Policy claims	801	759
Debt	2,614	2,506
Collateral received on securities lending	5,709	3,640
Other liabilities	7,762	6,385
Separate account liabilities	21,863	19,024
Total liabilities	177,019	162,954
Minority interest	1,165	693
Equity		
Accumulated other comprehensive loss	(241)	(331)
Retained earnings	20,440	19,027
Total equity	20,199	18,696
Total liabilities and equity	\$198,383	\$182,343

The accompanying notes are an integral part of the consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2007	2006
	(in millions)	
Revenue		
Premiums	\$9,879	\$9,100
Fees-universal life and annuity policies	956	860
Net investment income	8,916	8,232
Net investment gains	627	2,122
Other income	745	666
Total revenue	21,123	20,980
Expenses		
Policyholder benefits	5,763	5,356
Increase in liabilities for future policy benefits	3,998	3,769
Interest credited to policyholders' account balances	3,201	2,875
Operating expenses	4,172	3,894
Dividends to policyholders	1,659	1,565
Total expenses	18,793	17,459
Income from operations before income taxes and minority interest expense	2,330	3,521
Income tax expense	621	1,066
Income from operations before minority interest expense	1,709	2,455
Minority interest expense	(212)	(157)
Net income	\$1,497	\$2,298

The accompanying notes are an integral part of the consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
Years Ended December 31, 2007 and 2006
(in millions)

Accumulated Other Comprehensive Income (Loss)

	<u>Foreign Currency Translation Adjustment</u>	<u>Net Unrealized Investment Gains (Losses)</u>	<u>Defined Benefit Plans Adjustment</u>	<u>Retained Earnings</u>	<u>Total Equity</u>
Balance, December 31, 2005	\$ (223)	\$ 1,038	\$ (34)	\$ 16,729	\$ 17,510
Comprehensive income:					
Net income				2,298	2,298
Other comprehensive income (loss), net of tax:					
Change in foreign currency translation adjustment (net of income tax benefit of \$21 million)	(45)				(45)
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		(274)			(274)
Minimum pension liability adjustment (net of income tax expense of \$6 million)			12		12
Other comprehensive loss, net of tax					(307)
Total comprehensive income, net of tax					1,991
Adoption of SFAS 158 (net of income tax benefit of \$497 million)			(805)		(805)
Balance, December 31, 2006	<u>\$ (268)</u>	<u>\$ 764</u>	<u>\$ (827)</u>	<u>\$ 19,027</u>	<u>\$ 18,696</u>
Effects of changing defined benefit plans measurement date pursuant to SFAS No. 158 from September 30 to December 31					
Service cost, interest cost, and expected return on plan assets for October 1 - December 31, (net of income tax benefit of \$21 million)				(38)	(38)
Amortization of prior service cost for October 1 - December 31, (net of income tax expense of \$9 million)			14		14
Net actuarial gain for October 1 - December 31, (net of income tax expense of \$47 million)			85		85
Cumulative effect of changes in accounting principles (see note 3), net of income tax				(46)	(46)
Balance, January 1, 2007, as adjusted	<u>\$ (268)</u>	<u>\$ 764</u>	<u>\$ (728)</u>	<u>\$ 18,943</u>	<u>\$ 18,711</u>
Comprehensive income:					
Net income				1,497	1,497
Other comprehensive income (loss), net of tax:					
Change in foreign currency translation adjustment (net of income tax benefit of \$4 million)	6				6
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		(221)			(221)
Defined benefit plans:					
Prior service credit from plan amendment during the period (net of income tax expense of \$11 million)			21		
Net actuarial gains arising during the period (net of income tax expense of \$98 million)			134		
Amortization of prior service costs and net actuarial (gains)/losses included in net periodic pension costs, (net of income tax expense of \$32 million)			51		
Defined benefit plans, net			206		206
Other comprehensive loss, net of tax					(9)
Total comprehensive income, net of tax					1,488
Balance, December 31, 2007	<u>\$ (262)</u>	<u>\$ 543</u>	<u>\$ (522)</u>	<u>\$ 20,440</u>	<u>\$ 20,199</u>

The accompanying notes are an integral part of the consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW

	Year Ended December 31,	
	2007	2006
	(in millions)	
Cash Flows from Operating Activities:		
Net income	\$ 1,497	\$ 2,298
Adjustments to reconcile net income to net cash (used in) provided by Operating activities:		
Depreciation and amortization	(201)	(5)
Net capitalization of deferred policy acquisition costs	(412)	(562)
Universal life and annuity fees	(480)	(422)
Interest credited to policyholders' account balances	3,201	2,875
Net investment gains	(627)	(2,122)
Equity in earnings of limited partnerships	(150)	14
Equity in earnings of unconsolidated subsidiaries	8	(13)
Deferred income taxes	133	445
Net change in unearned revenue liability	56	49
Minority interest expense	212	157
Other	32	1
Changes in:		
Investment income due and accrued	(19)	(157)
Other assets and other liabilities	(11)	266
Trading securities	125	160
Policy claims	42	105
Future policy benefits	3,867	3,667
Net cash provided by operating activities	7,273	6,756
Cash Flows from Investing Activities:		
Proceeds from:		
Sale of available-for-sale fixed maturities	29,461	31,142
Maturity of available-for-sale fixed maturities	2,438	3,365
Maturity of held to maturity fixed maturities	10	5
Sale of equity securities	4,192	2,732
Repayment of mortgage loans	1,349	1,895
Sale of other investments	945	696
Cost of:		
Available-for-sale fixed maturities acquired	(36,746)	(41,549)
Held-to-maturity fixed maturities acquired	(88)	(228)
Equity securities acquired	(3,231)	(2,318)
Mortgage loans acquired	(3,355)	(2,809)
Acquisition of other investments	(1,446)	(1,261)
Securities purchased under agreements to resell	(1,187)	(37)
Policy loans	(491)	(389)
Capital expenditures	(101)	(146)
Purchase of subsidiaries, net of cash acquired	-	(190)
Consolidation and deconsolidation of entities due to FIN 46R	(8)	(1)
Other	11	14
Net cash used in investing activities	(8,247)	(9,079)
Cash Flows from Financing Activities:		
Policyholders' account balances:		
Deposits	15,394	16,004
Withdrawals	(14,354)	(14,080)
Net transfers to the separate accounts	(544)	(371)
Net (distributions to) contributions from minority interests	(100)	(10)
Change in book and bank over drafts	91	(56)
Increase in loaned securities	2,068	441
Securities sold under agreements to repurchase (net)	2	(243)
Proceeds/(Paydowns) from debt, net	328	261
Net cash provided by financing activities	2,885	1,946
Effect of exchange rate changes on cash and cash equivalents	2	(39)
Net increase (decrease) in cash and cash equivalents	1,913	(416)
Cash and cash equivalents, beginning of year	4,425	4,841
Cash and cash equivalents, end of year	\$ 6,338	\$ 4,425

The accompanying notes are an integral part of the consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(GAAP BASIS)

December 31, 2007 and 2006

NOTE 1 - NATURE OF OPERATIONS

New York Life Insurance Company and its subsidiaries (“the Company”) offer a wide range of insurance and investment products and services including life and health insurance, long-term care, annuities (including guaranteed lifetime income annuities), pension products, mutual funds, and other investments and investment advisory services. The Company is comprised of four primary business operations: Life and Annuity, Investment Management, International Operations and Special Markets. Life and Annuity operations are conducted through New York Life Insurance Company (“NYLIC”), the parent company, and its wholly owned insurance subsidiaries New York Life Insurance and Annuity Corporation (“NYLIAC”) and NYLIFE Insurance Company of Arizona (“NYLIFE of Arizona”). Investment Management activities are conducted primarily through NYLIC and various registered investment advisory subsidiaries of its wholly owned subsidiary, New York Life Investment Management Holdings LLC (“NYLIM Holdings”). The Company markets individual insurance and investment products in Asia and Latin America through New York Life International, LLC (“NYL International”), a wholly owned subsidiary of NYLIC. Special Markets is a niche business area of NYLIC and NYLIAC that markets group life and health insurance to membership associations, long-term care insurance and is the exclusive provider of life insurance and guaranteed lifetime income annuity products to members of AARP. NYLIFE LLC is a wholly owned subsidiary of NYLIC, and is a holding company for certain non-insurance subsidiaries of NYLIC. NYLIFE LLC through its subsidiaries, offers securities brokerage, financial planning and investment advisory services, trust services and capital financing.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and reflect the consolidation of the parent company with its majority owned and controlled subsidiaries, as well as variable interest entities in which the Company is considered the primary beneficiary: principally NYLIAC, NYLIFE of Arizona, NYLIFE LLC, NYL International and NYLIM Holdings. All intercompany transactions have been eliminated in consolidation. The New York State Insurance Department (the “Department”) recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York State Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its policyholders. In addition, the Company is also subject to reporting requirements with the Delaware and Arizona Insurance Departments. No consideration is given by any of the State Insurance Departments to financial statements prepared in accordance with GAAP in making such determinations.

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

Accounting practices used to prepare statutory financial statements for regulatory filings of life insurance companies differ in certain instances from GAAP.

The following reconciles consolidated GAAP net income to the statutory net income of NYLIC, as reported to regulatory authorities (in millions):

	<u>2007</u>	<u>2006</u>
Consolidated GAAP net income	\$ 1,497	\$ 2,298
Removal of subsidiaries net income	(563)	(767)
GAAP net income NYLIC parent company	<u>934</u>	<u>1,531</u>
Adjustments to NYLIC parent company GAAP basis for:		
Removal of net capitalization of deferred policy acquisition costs ("DAC")	(41)	(173)
Re-estimation of future policy benefits and policyholder account balances	(142)	28
Removal of deferred income taxes	106	181
Policyholder dividends	(17)	(8)
Inclusion of interest maintenance reserve ("IMR") amortization	45	79
Fair value adjustment of certain liabilities	(46)	(114)
Net investment gains	158	(728)
Inclusion of dividend income from subsidiaries	11	20
Other	(152)	(22)
Statutory net income*	<u>\$ 856</u>	<u>\$ 794</u>

* Statutory net income includes the net income of NYLIC only, and excludes the statutory net income of its domestic insurance subsidiaries of \$285 million and \$251 million for the years ended December 31, 2007 and 2006, respectively.

The following reconciles consolidated GAAP equity to statutory capital of the Company, as reported to regulatory authorities (in millions):

	<u>2007</u>	<u>2006</u>
Consolidated GAAP equity	\$ 20,199	\$ 18,696
Adjustments to GAAP basis for:		
Removal of DAC	(6,616)	(6,113)
Establishment of IMR	(295)	(351)
Policyholder dividends	(246)	(227)
Removal of unrealized gains on investments	(1,524)	(1,670)
Removal of certain assets that are non-admitted for statutory accounting	(1,422)	(1,426)
Deferred tax asset	413	163
Immediate write-off under statutory accounting of all goodwill	(554)	(556)
Other adjustments to investments in subsidiaries	(214)	(198)
Re-estimation of future policy benefits and policyholders' account balances	2,717	2,893
Inclusion of surplus notes, net of indemnification reserve	913	902
Pension and post retirement benefits	1,220	1,640
Other	89	106
Statutory capital**	<u>\$ 14,680</u>	<u>\$ 13,859</u>

** Statutory capital includes statutory surplus and the asset valuation reserve ("AVR") on a consolidated basis of the Company. NYLIC's statutory surplus was \$11,959 million and \$11,300 million at December 31, 2007 and 2006, respectively. AVR for NYLIC was \$2,257 million and \$2,087 million at December 31, 2007 and 2006, respectively. AVR for NYLIC's domestic insurance subsidiaries was \$464 million and \$472 million at December 31, 2007 and 2006, respectively.

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. Actual results could differ from those estimates.

Investments

Fixed maturity investments, which the Company has both the ability and the intent to hold to maturity, are stated at amortized cost and classified as held-to-maturity. Investments classified as available-for-sale or trading are reported at fair value. For publicly traded fixed maturities, estimated fair value is determined using quoted market prices. For fixed maturities 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. Unrealized gains and losses on available-for-sale securities are reported in other comprehensive income, net of deferred taxes and related adjustments. Unrealized gains and losses from investments classified as trading fixed maturities are reflected in net investment gains in the accompanying Consolidated Statement of Income.

Changes in future anticipated cash flows on mortgage and asset-backed securities from the original purchase assumptions are accounted for using the retrospective yield adjustment method.

Unaffiliated equity securities are carried at fair value. The estimated fair value of equity securities has been determined using quoted market prices for publicly traded securities and management's pricing model for private placement securities. Unrealized gains and losses on equity securities classified as available-for-sale are reflected in net unrealized investment gains in other comprehensive income, net of deferred taxes and related adjustments. Unrealized gains and losses from investments in equity securities classified as trading are reflected in net investment gains in the accompanying Consolidated Statement of Income.

Affiliated equity securities represent holdings in entities where there is at least 20% ownership or where the Company has the ability to exercise significant influence through its relationship, and are accounted for by the equity method of accounting. Accordingly, respective net earnings or losses are included in net income in the accompanying Consolidated Statement of Income.

The cost basis of fixed maturities and equity securities is adjusted for impairments in value deemed to be other than temporary, with the associated realized loss reported in net investment gains in the accompanying Consolidated Statement of Income. Factors considered in evaluating whether a decline in value is other than temporary include: i) whether the decline is substantial; ii) the amount of time that the fair value has been less than cost; iii) the financial condition and near-term prospects of the issuer; and iv) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

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 upon the fair value of the collateral or present value of expected future cash flows discounted at the loan's original effective interest rate. The Company also has a general valuation allowance for estimated future credit losses on currently performing mortgages. The general allowance is based on the Company's historical loss experience for the mortgage loan portfolio.

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

Cash equivalents include investments that have remaining maturities of three months or less at date of purchase and are carried at amortized cost, which approximates fair value.

Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are stated at amortized cost, which approximates fair value. Short-term investments are included in fixed maturities on the Consolidated Balance Sheet.

Other investments consist primarily of direct investments in limited partnerships, limited liability companies, derivatives, real estate and collateralized third party commercial loans. Investments in limited partnerships and limited liability companies are accounted for by the equity method of accounting. Investments in real estate, which the Company has the intent to hold for the production of income, are carried at depreciated cost, net of write-downs for other than temporary declines in fair value. Properties held for sale are carried at the lower of depreciated cost or fair value, less estimated selling costs. Collateralized third party commercial loans are reported at their outstanding principal balance reduced by any charge-off or specific or general valuation allowance and net of any deferred fees or costs on originated loans or unamortized premiums or discounts on purchased loans. Loan origination fees are capitalized and recognized as an adjustment of the yield of the related loan using the interest method.

Net investment gains (losses) on sales are generally computed using the specific identification method.

In many cases, investment in limited partnerships and limited liability companies qualify as investment companies and apply specialized accounting practices, which result in unrealized gains and losses being recorded in the income statement. The Company retains this special accounting practice. For such consolidated limited partnerships, the unrealized gains and losses from the underlying investments are reported in net investment gains in the accompanying Consolidated Statement of Income. For such limited partnerships accounted for under the equity method, the unrealized gains and losses from the underlying investments are reported in net investment income.

Variable Interest Entities (“VIEs”)

In the normal course of its activities, the Company enters into relationships with various special purpose entities and other entities that are deemed to be variable interest entities, in accordance with FIN No. 46(R), “Consolidation of Variable Interest Entities.” A VIE is an entity that either (i) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control the entity, the obligation to absorb the entity’s expected losses and the right to receive the entity’s expected residual returns) or (ii) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE. If the Company determines that it stands to absorb a majority of the VIE’s expected losses or to receive a majority of the VIE’s expected residual returns, or both, the Company would be deemed to be the VIE’s “primary beneficiary” and would be required to consolidate the VIE. The Company’s investments in VIEs are discussed in Note 5 – Investments.

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 loaned with additional collateral obtained as necessary.

The Company enters into agreements to purchase and resell securities, and agreements to sell and repurchase securities for the purpose of enhancing income on the securities portfolio. Securities purchased under agreements to resell are treated as investing activities and are carried at 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. 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. Securities purchased under agreement to resell are reflected separately in the accompanying Consolidated Balance Sheet.

Under agreements to sell and repurchase securities, the Company obtains the use of funds from a broker for generally one month. Securities sold under agreements to repurchase are treated as financing arrangements. Collateral received is invested in short-term investments with an offsetting collateral liability. The liability is included in other liabilities on the accompanying Consolidated Balance Sheet and approximates fair value.

Deferred Policy Acquisition Costs ("DAC")

The costs of acquiring new and maintaining renewal business and certain costs of issuing policies that vary with and are primarily related to the production of new and renewal business have been deferred and recorded as an asset in the accompanying Consolidated Balance Sheet. These costs consist primarily of commissions, certain expenses of underwriting and issuing contracts and certain agency expenses.

For traditional participating life insurance policies, such costs are amortized over the life of the contracts, which is assumed to be 25 years in proportion to estimated gross margins, basing amortization initially on pricing assumptions and updating periodically for actual results. For universal life and deferred annuity contracts, such costs are amortized in proportion to estimated gross profits over the effective life of those contracts, which is assumed to be 25 years for universal life contracts and 15 years for deferred annuities. The Company uses a pricing based approach for projections of future gross margins, which include original pricing earned rates. Changes in assumptions for all policies and contracts are reflected as retroactive adjustments in the current year's amortization. For these contracts the carrying amount of the DAC asset is adjusted at each balance sheet date as if the unrealized investment gains or losses had been realized and included in the gross margins or gross profits used to determine current period amortization. The increase or decrease in the DAC asset due to unrealized investment gains or losses is recorded in other comprehensive income.

DAC for term contracts, annuity policies with life contingencies, and group life and health contracts are amortized in proportion to premium income over the effective premium-paying period of the contract. Assumptions as to anticipated premiums are made at the date of policy issuance and are consistently applied during the life of the contract. Deviations from estimated experience are included in operating expenses in the accompanying Consolidated Statement of Income when they occur.

Effective January 1, 2007, the Company adopted a new accounting standard for deferred acquisition costs on internal replacements of certain insurance and investment contracts. See Note 3 - Recent Accounting Pronouncements.

Sales Inducements

For some deferred annuity products, the Company offers policyholders a bonus equal to a specified percentage of the policyholder's initial deposit and additional credits to the policyholder's account value related to minimum accumulation benefits, which are considered sales inducements in certain instances. The Company defers these aforementioned sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. Deferred sales inducements are reported in other assets in the accompanying Consolidated Balance Sheet.

Goodwill and Other Intangible Assets

Goodwill and other intangibles with an indefinite useful life are not required to be amortized. All indefinite lived intangible assets are required to be tested for impairment at least annually. An intangible asset with a finite life is amortized over its useful life. Intangibles with a finite useful life are tested for impairment when facts and circumstances indicate that its carrying amount may not be recoverable. In 2007 and 2006, the Company completed the regular annual impairment tests of goodwill. No goodwill impairment was taken in 2007 and 2006. However, the amount may vary from year to year due to fluctuation in currency exchange rates.

Derivative Financial Instruments

Derivative financial instruments are accounted for at fair value. The treatment of changes in the fair value of derivatives depends on the characteristics of the transaction, including whether it has been designated and qualifies as part of a hedging relationship. Derivatives that do not qualify for hedge accounting are carried at fair value with changes in value included in net investment gains.

To qualify as a hedge, the hedge relationship is designated and formally documented at inception by detailing the particular risk management objective and strategy for the hedge. This includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed and measured. 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 hedging relationship is considered highly effective if the changes in fair value or discounted cash flows of the hedging instrument is within 80-125% of the inverse changes in the fair value or discounted cash flows of the hedged item. The Company formally assesses effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy.

The Company designates and accounts for the following as fair value hedges when they have met the requirements of SFAS No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”: (i) interest rate swaps to convert fixed rate investments to floating rate investments; (ii) foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated investments; (iii) equity swaps to hedge the market price risk for common stock investments.

For fair value hedges, the Company generally uses a qualitative assessment to assess hedge effectiveness, which matches the critical terms of the derivative with the underlying hedged item. For fair value hedges of equity investments, the Company uses regression analysis, which measures the correlation to the equity exposure being hedged. For fair value hedges, in which derivatives hedge the fair value of assets, changes in the fair value of derivatives are reflected in net investment gains, together with changes in the fair value of the related hedged item. The Company’s fair value hedges are primarily hedges of available-for-sale fixed maturity securities and equity securities.

The Company designates and accounts for the following as cash flow hedges, when they have met the requirements of SFAS No. 149: (i) interest rate swaps to convert floating rate investments to fixed rate investments; (ii) interest rate swaps to convert floating rate liabilities into fixed rate liabilities; (iii) foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated investments and liabilities; (iv) foreign currency swaps to hedge the foreign currency exposure of the net investment in foreign operations; and (v) interest rate swaps to hedge the interest rate risk associated with forecasted transactions.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to variable rate available-for-sale securities, available-for-sale securities that are exposed to foreign exchange risk, and liabilities that are exposed to foreign exchange risk, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash

flows, changes in the derivatives' fair value will not be included in current earnings but are reported as changes in other comprehensive income. These changes in fair value will be included in net investment gains of future periods when earnings are also affected by the variability of the hedged cash flows. For hedges of assets or liabilities that are subject to transaction gains and losses under SFAS No. 52 "Foreign Currency Translation", the change in fair value relative to the change in spot rates during the reporting period is reclassified and reported with the transaction gain or loss of the asset/liability being hedged. To the extent these derivatives are not effective, changes in their fair values are immediately included in earnings in net investment gains. The Company's cash flow hedges primarily include hedges of floating rate available-for-sale securities, hedges of the forecasted purchase of available-for-sale securities and liabilities that are exposed to foreign exchange risk. The assessment of hedge effectiveness for cash flow hedges of interest rate risk excludes amounts relating to risks other than exposure to the benchmark interest rate.

For cash flow hedges of interest rate risk, the Company uses either the short-cut method, if appropriate, or regression analysis to assess hedge effectiveness to changes in the benchmark interest rate. The change in variable cash flows method is used to measure hedge ineffectiveness when appropriate.

For cash flow hedges, hedge accounting is discontinued when it is probable that a forecasted transaction will not occur. In these cases, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in net investment gains. When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in other comprehensive income and will be recognized when the transaction affects net income; however, prospective hedge accounting for the transaction is terminated. In all other cash flow hedge situations in which hedge accounting is discontinued, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in net investment gains and the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period net investment gains.

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) the derivative is de-designated as a hedge instrument, (iv) it is probable that the forecasted transaction will not occur, or (v) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

For derivatives that hedge the foreign currency exposure of a net investment in a foreign operation, the accounting treatment will similarly depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in accumulated other comprehensive income as part of the foreign currency translation adjustment.

The Company may enter into contracts that are not themselves derivative instruments but contain embedded derivatives. For each contract, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to those of the host contract and determines whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative. Such embedded derivatives are recorded on the balance sheet at fair value and changes in their fair value are recorded currently in earnings. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at fair value.

Effective January 1, 2007, the Company began recognizing derivatives and embedded derivatives related to beneficial interests in securitized financial instruments. See Note 3 - Recent Accounting Pronouncements.

Policyholders' Account Balances

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is generally equal to the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance. This liability also includes amounts that have been assessed to compensate the insurer for services to be performed over future periods, and the fair value of embedded derivatives in the above contracts.

Future Policy Benefits

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For traditional individual participating life insurance products, the mortality assumptions applied are those used to calculate the policies' guaranteed cash surrender values. The interest rate assumptions are based on the dividend guarantees. For non-participating traditional life insurance and annuity products, expected mortality and lapse or surrender are generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and interest rate assumptions are "locked-in" upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves, if required, are determined based on assumptions at the time the premium deficiency reserve is established and do not include a provision for the risk of adverse deviation. The Company's liability for future policy benefits also includes a liability for unpaid claims and claim adjustment expenses. The Company does not establish loss reserves until a loss has occurred. However, unpaid claims and claim adjustment expenses include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date. The Company's liability for future policy benefits also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 9, and unearned revenues.

Debt

Debt is generally carried at unpaid principal balance. The carrying amount for commercial paper approximates fair value. The fair value of the Company's other debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Separate Accounts Assets and Liabilities

The Company has separate accounts, some of which are registered with the Securities and Exchange Commission ("SEC"), and others that are not registered with the SEC. The separate accounts have varying investment objectives, and are segregated from the Company's general account and are maintained for the benefit of separate account policyholders. At December 31, 2007 and 2006, all separate account assets are stated at fair value. The liability at December 31, 2007 and 2006 represents the policyholders' interest in the account, and includes accumulated net investment income and realized and unrealized gains and losses on the assets, which generally reflects fair value.

Other Assets and Other Liabilities

Other assets primarily consist of amounts receivable for undelivered securities, furniture and equipment, capitalized software and web development costs, reinsurance recoverables, net deferred tax assets, sales inducements, intangible assets, and trade receivables. Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally ranges from 3 to 10 years. Capitalized external and internal software and web development costs are amortized on a straight-line basis over the estimated useful life of the software, not to exceed five years. Other liabilities consist primarily of securities loaned, payables resulting from purchases of securities that had not yet settled at the balance sheet date, derivative liabilities, trade payables, employee benefit liabilities, and current tax liabilities.

Recognition of Income and Related Expenses

Premiums from traditional participating life insurance policies, term life policies, annuity policies with life contingencies and group life and health contracts are recognized as income when due. The associated benefits and expenses are matched with income so as to result in the recognition of profits over the life of the contracts. This match is accomplished by providing for liabilities for future policy benefits (as discussed in Note 9 – Policyholders' Liabilities) and the deferral and subsequent amortization of policy acquisition costs.

Amounts received under universal life-type contracts and investment contracts are reported as deposits to policyholders' account balances (as discussed in Note 9 – Policyholders' Liabilities). Revenues from these contracts consist of amounts assessed during the period for mortality and expense risk, policy administration and surrender charges, and are included as fee income in the Consolidated Statement of Income. In addition to fees, the Company earns investment income from the investment of policyholders' deposits in the Company's general account portfolio. Amounts previously assessed to compensate the Company for services to be performed over future periods are deferred and recognized into income over the period benefited, using the same assumptions and factors used to amortize DAC costs. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholders' account balances.

Premiums for contracts with a single premium or a limited number of premium payments due over a significantly shorter period than the total period over which benefits are provided, are recorded as income when due. Any excess profit is deferred and recognized as income in a constant relationship to insurance in force and, for annuities, in relation to the amount of expected future benefit payments.

Premiums, universal life fee income, benefits and expenses are stated net of reinsurance ceded. Estimated reinsurance ceding allowances are recognized over the life of the reinsured policies using assumptions consistent with those used to account for the underlying policies.

Fee Income

The Company receives fees for investment management advisory services and performance fees for services provided under agreements with its clients. Such fees are generally computed as a percentage of the fair value of the client's portfolio under management and are accrued as earned. These fees are included in other income in the accompanying Consolidated Statement of Income.

Policyholders' Dividends

The amount of dividends to be paid to NYLIC participating policyholders is determined annually by NYLIC's Board of Directors. The aggregate amount of policyholders' dividends is based on NYLIC's statutory results and past experience, including investment income, net realized investment gains and

losses over a number of years, mortality experience, and other factors. NYLIC accrues dividends to policyholders when they are due to the policyholder.

The amount of dividends to be paid to the Company's NYL international policyholders is determined by means of formulas specific to each country's regulations that reflect the relative contribution of each group's policies to the results of operations.

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 GAAP and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby GAAP and tax balance sheets are compared. Deferred income taxes are generally recognized based on enacted tax rates and a valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

NYLIC 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 generally settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return.

Effective January 1, 2007, the Company adopted a new accounting standard for uncertain tax positions. See Note 3 - Recent Accounting Pronouncements.

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 these costs in the accrual.

Foreign Currency Translation Adjustments

Assets and liabilities denominated in foreign currencies have been translated into U.S. dollars at the respective year-end exchange rates. Operating results are translated monthly at the average exchange rates for that month. Foreign currency translation gains and losses are credited or charged directly to the cumulative translation adjustment ("CTA") account in other comprehensive income in the accompanying Consolidated Balance Sheet. The change in the CTA account includes the current year effect of the translation adjustment. Foreign currency transaction gains and losses are included in net income.

Fair Value of Financial Instruments

Fair values of various assets and liabilities are included throughout the notes to the consolidated financial statements. Specifically, fair value disclosure of fixed maturities, equity securities, short-term investments, cash equivalents, mortgage loans, debt, and policy loans are reported in Note 2 - Significant Accounting Policies and Notes 5 & 6 - Investments. Fair values for investment contracts are reported in Note 9 - Policyholders' Liabilities. Fair values for debt are reported in Note 12 - Debt. Fair values for

derivatives are reported in Note 14 - Derivative Financial Instruments and Risk Management. Fair values for repurchase agreements are reported in Note 15 - Commitments and Contingencies.

Business Risks and Uncertainties

The Company's investment portfolio consists principally of fixed income securities as well as mortgage loans, policy loans, limited partnerships, preferred and common stocks and equity real estate. The fair value of the Company's investments varies depending on economic and market conditions and the interest rate environment. 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 fixed maturities.

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. The fair value of the Company's invested assets fluctuates depending on market and other general economic conditions and the interest rate environment. 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 condition and results of operation.

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

The Company regularly invests in mortgage loans, mortgage-backed securities and other securities subject to prepayment and/or call risk. Significant changes in prevailing interest rates and/or geographic conditions may adversely affect the timing and amount of cash flows on these investments, as well as their related values. In addition, the amortization of market premium and accretion of market discount for mortgage-backed securities is based on historical experience and estimates of future payment experience underlying mortgage loans. Actual prepayment timing will differ from original estimates and may result in material adjustments to asset values and amortization or accretion recorded in future periods.

Subprime residential mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles, including using relaxed mortgage underwriting standards that provide for affordable mortgage products. The Company's exposure to subprime residential mortgage lending is through fixed maturity investments that are collateralized by mortgages that have characteristics of subprime lending. These investments are primarily in the form of mortgage-backed securities supported by subprime mortgage loans. The collective market value of these investments is approximately \$419 million with an unrealized loss of \$27 million. Of the total subprime-related investments, 97% had "AAA" or "AA" credit quality ratings. The Company manages its subprime risk exposure by limiting the Company's holdings in these types of instruments; maintaining high credit quality investments; and performing ongoing analysis of cash flows, prepayment speeds, default rates and other stress variables.

Weak equity market performance may adversely affect sales of variable products, mutual funds or investment management products, cause potential purchasers of the Company's products to refrain from

new or additional investments, and may cause current investors to withdraw from the market or reduce their rates of ongoing investment.

Revenues of the Company's variable products, mutual funds and other investment management businesses are to a large extent based on fees related to the value of assets under management. Consequently, poor equity market performance limits fee revenues. The level of assets under management could also be negatively affected by withdrawals.

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 changes will be made, whether any administrative or legislative proposals will be adopted in the future, or the effect, if any, such proposals would have on the Company.

The development of policy reserves and DAC 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 future expectations of mortality, morbidity, expense, persistency and investment experience. Actual results could differ from those estimates. Management monitors actual experience and, where circumstances warrant, revises its assumptions and the related estimates for policy reserves and DAC.

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

As substantially all of the net assets of NYL International 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 - RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements 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, and to make additional disclosures. This standard was effective for fiscal years ending after June 15, 2007 for non-public companies, with early adoption permitted. The Company decided to adopt the recognition and disclosure provisions of SFAS No. 158 as of December 31, 2006. Accordingly, the adoption of SFAS No. 158 resulted in a reduction in accumulated other comprehensive income in the accompanying Consolidated Balance Sheet of approximately \$805 million, net of income taxes.

SFAS No. 158 also requires an employer to measure the funded status of its plans as of its fiscal year-end. Previously, employers were permitted to measure the funded status of their plans within three months of its fiscal year-end. This requirement is effective for fiscal years ending after December 15, 2008, with early adoption permitted. The Company adopted the measurement date provision of SFAS No. 158, as of January 1, 2007. Accordingly, the January 1, 2007 impact of changing the measurement date from September 30th to December 31st resulted in a reduction to retained earnings of \$38 million, net of

income taxes, and an increase in accumulated other comprehensive income of \$99 million, net of income taxes, in the accompanying Consolidated Balance Sheet.

In July 2006, the FASB issued FASB Interpretation (“FIN”) No. 48, “Accounting for Uncertainty in Income Taxes” an interpretation of FASB Statement No. 109. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. On February 1, 2008 the FASB issued FASB Staff Position (“FSP”) No. 48-2, “Effective Date of FIN 48 for Certain Nonpublic Enterprises”, which delayed the effective date for non-public entities to periods beginning after December 15, 2007 with early adoption permitted. The Company early adopted FIN No. 48 on January 1, 2007. The cumulative effect of the adoption of FIN No. 48, as of January 1, 2007, resulted in a decrease to retained earnings of \$56 million.

In July 2006, the FASB issued FASB Staff Position (“FSP”) No. 13-2, “Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction,” an amendment of FASB Statement No. 13. FSP No. 13-2 indicates that a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease would require a recalculation of cumulative and prospective income recognition associated with the transaction. FSP No. 13-2 is effective for fiscal years beginning after December 15, 2006. The Company adopted FSP No. 13-2 on January 1, 2007 and the adoption resulted in no impact as of January 1, 2007.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Instruments – an amendment of FASB Statements No. 133 and 140.” This statement removes an exception from the requirement to bifurcate an embedded derivative feature from a beneficial interest in securitized financial assets. This statement also provides an irrevocable election to measure at fair value an entire hybrid financial instrument that contains an embedded derivative requiring bifurcation, on an instrument-by-instrument basis, rather than measuring only the embedded derivative on a fair value basis. The Company has used the exception for investments made in securitized financial assets in the normal course of operations, and thus has not previously had to consider whether such investments contain an embedded derivative. The new requirement to identify embedded derivatives in beneficial interests is required to be applied on a prospective basis only to beneficial interests acquired, issued, or subject to certain remeasurement conditions after the adoption date of the new guidance. The Company adopted SFAS No. 155 effective January 1, 2007. The Company’s adoption of SFAS No. 155 did not have a material effect on the Company’s consolidated financial statements. The Company elected to measure at fair value certain financial instruments that contained an embedded derivative that would otherwise require bifurcation. These amounts were included in "fixed maturities - trading securities" and totaled \$298 million at December 31, 2007.

In September 2005, the Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 05-1, “Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts” (“SOP 05-1”). SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards (SFAS) No. 97. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Under SOP 5-1, DAC written off at date of lapse cannot be restored when a policy subsequently reinstates. In addition, exchanges of deferred annuity contracts are generally considered substantially unchanged contracts and DAC is not written off. The Company adopted SOP 05-1 on January 1, 2007 which resulted in an increase in retained earnings of \$10 million, net of income taxes.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures around fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement could change current practices in determining fair value. The guidance in SFAS No. 157 will be applied prospectively with certain exceptions. This Statement is effective January 1, 2008, at which time the Company plans to adopt this guidance. The Company is currently evaluating the impact of SFAS No. 157 on the Company’s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 “The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FAS 115.” This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A company should report unrealized gains and losses on items for which the fair value option has been elected in earnings. This Statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company plans to adopt this guidance effective January 1, 2008. The Company is currently evaluating the impact of SFAS No. 159 on the Company’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, “Business Combinations” – an amendment of FASB Statement No. 141.” FASB 141R establishes the requirements for how an acquirer: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest (formerly known as “minority interest”) in the acquiree, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This Statement is effective January 1, 2009, at which time the Company plans to adopt this guidance. Early application of this statement is prohibited before the effective date. SFAS No. 141R will be applied prospectively to all business combinations. The Company is currently assessing the impact of SFAS No. 141R on the Company’s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interest in Consolidated Financial Statements ” – an amendment of Accounting Research Bulletin No. 51, (“ARB No. 51”) “Consolidated Financial Statements.” SFAS No. 160 focuses on non-controlling interests (formerly known as “minority interest”). SFAS No. 160 requirements include provisions that call for: (i) the ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the Consolidated Statement of Financial Position within equity, but separate from the parent's equity (ii) the amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the face of the Consolidated Statement of Income, and (iii) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for consistently. This Statement is effective January 1, 2009, at which time the Company plans to adopt this guidance. Early application of this Statement is prohibited before the effective date. This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently assessing the impact of SFAS No. 160 on the Company’s consolidated financial statements.

NOTE 4 – ACQUISITION

On June 30, 2006, pursuant to the terms and conditions of an Agreement and Plan of Merger dated May 17, 2006, NYLIM Holdings acquired all of the common stock of Institutional Capital Corporation (subsequently renamed Institutional Capital LLC), (“ICAP”) for \$202 million. The acquisition is being accounted for using the purchase method of accounting, which requires that the assets and liabilities of ICAP be measured at their fair values as of June 30, 2006. The results of ICAP’s operations were included in the Company’s consolidated financial statements beginning June 30, 2006. ICAP is an investment management company, which is in the business of providing investment management services primarily to institutional investors. The purchase price has been allocated based on the fair value of the net assets acquired at the date of acquisition as follows (in millions):

Goodwill	\$	119
Intangibles		111
Other net assets		10
Deferred tax liability		(38)
Total purchase price	\$	<u>202</u>

Intangible assets of \$111 million primarily consist of institutional client relationships and mutual fund advisory contracts. The intangible asset assigned to institutional client relationships is amortized over a 15 year useful life. The intangible asset assigned to the mutual fund advisory contracts has an indefinite useful life and is not subject to amortization.

NOTE 5 – INVESTMENTS

Fixed Maturities

The amortized cost and estimated fair value of fixed maturities as of December 31, 2007 and 2006 by contractual maturity is presented below (in millions). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	2007		2006	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available-for-Sale				
Due in one year or less	\$ 3,484	\$ 3,481	\$ 2,447	\$ 2,450
Due after one year through five years	19,032	19,349	16,940	17,037
Due after five years through ten years	27,596	27,513	28,861	28,832
Due after ten years	27,123	28,606	26,977	28,494
Mortgage and asset backed securities:				
U.S. government or U.S. government agency	2,514	2,509	2,500	2,472
Other mortgage-backed securities	20,499	20,544	18,944	19,013
Other asset-backed securities	10,684	10,437	9,890	9,879
Redeemable preferred securities	229	228	271	273
Total Available-for-Sale	<u>\$ 111,161</u>	<u>\$ 112,667</u>	<u>\$ 106,830</u>	<u>\$ 108,450</u>

	2007		2006	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held-to-Maturity				
Due in one year or less	\$ 24	\$ 24	\$ 18	\$ 18
Due after one year through five years	130	129	103	103
Due after five years through ten years	103	99	90	91
Due after ten years	109	107	83	86
Total Held-to-Maturity	<u>\$ 366</u>	<u>\$ 359</u>	<u>\$ 294</u>	<u>\$ 298</u>

At December 31, 2007 and 2006, the distribution of gross unrealized gains and losses on investments in fixed maturities was as follows (in millions):

<u>Available-for-Sale</u>	2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government corporations and agencies	\$ 10,162	\$ 624	\$ 27	\$ 10,759
U.S. agencies, state, and municipal	2,660	425	2	3,083
Foreign governments	2,392	137	15	2,514
Corporate	64,535	1,764	1,197	65,102
Mortgage-backed securities	20,499	295	250	20,544
Asset-backed securities	10,684	50	297	10,437
Redeemable preferred securities	229	9	10	228
Total Available-for-Sale	<u>\$ 111,161</u>	<u>\$ 3,304</u>	<u>\$ 1,798</u>	<u>\$ 112,667</u>

<u>Held-to-Maturity</u>	2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Foreign governments	\$ 313	\$ -	\$ 8	\$ 305
Corporate	48	-	-	48
Other	5	1	-	6
Total Held-to-Maturity	<u>\$ 366</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 359</u>

<u>Available-for-Sale</u>	2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government corporations and agencies	\$ 7,208	\$ 371	\$ 71	\$ 7,508
U.S. agencies, state, and municipal	2,851	334	12	3,173
Foreign governments	2,310	118	20	2,408
Corporate	65,356	1,759	919	66,196
Mortgage-backed securities	18,944	237	168	19,013
Asset-backed securities	9,890	43	54	9,879
Redeemable preferred securities	271	6	4	273
Total Available-for-Sale	<u>\$ 106,830</u>	<u>\$ 2,868</u>	<u>\$ 1,248</u>	<u>\$ 108,450</u>

<u>Held-to-Maturity</u>	2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Foreign governments	\$ 245	\$ 4	\$ 1	\$ 248
Corporate	44	-	-	44
Other	5	1	-	6
Total Held-to-Maturity	<u>\$ 294</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 298</u>

At December 31, 2007 and 2006, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to \$0 million and \$78 million, respectively.

The Company accrues interest income on fixed maturity securities to the extent it is deemed collectible and the security continues to perform under its original contractual terms. Interest income on impaired securities is recognized on a cash basis.

Investments in bonds that have been non-income producing for the last twelve months total \$1 million and \$13 million at December 31, 2007 and 2006, respectively. These investments have been deemed other than temporarily impaired.

Equity Securities

At December 31, 2007 and 2006, the distribution of gross unrealized gains and losses on unaffiliated available-for-sale equity securities was as follows (in millions):

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
2007	\$ 2,490	\$ 601	\$ 92	\$ 2,999
2006	\$ 2,906	\$ 930	\$ 9	\$ 3,827

There were no investments in preferred stock that have been non-income producing for the last twelve months at December 31, 2007 and 2006, respectively.

Mortgage Loans

The Company's mortgage loan investments are diversified by property type, location and borrower and are collateralized by the related property.

The fair value of the mortgage loan portfolio at December 31, 2007 and 2006 was estimated to be \$14,749 million and \$12,755 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.

At December 31, 2007 and 2006, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to \$382 million and \$582 million, respectively, at fixed and floating interest rates ranging from 3.0% to 7.8% in 2007 and fixed and floating rates ranging from 3.6% to 7.6% in 2006. These commitments are diversified by property type and geographic region.

The Company accrues interest income on problem loans to the extent it is deemed collectible and the loan continues to perform under its original or restructured contractual terms. Interest income on impaired loans is recognized on a cash basis. Cash payments on loans in the process of foreclosure are treated as a return of principal.

At December 31, 2007 and 2006, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	2007		2006	
	Carrying Value	% of Total	Carrying Value	% of Total
Property Type:				
Office building	\$ 3,985	27.4%	\$ 3,452	27.7%
Retail facilities	3,220	22.1%	3,025	24.3%
Industrial	2,771	19.0%	2,042	16.4%
Apartment buildings	2,798	19.2%	2,269	18.2%
Residential	1,524	10.5%	1,462	11.7%
Other	260	1.8%	212	1.7%
Total	<u>\$ 14,558</u>	<u>100.0%</u>	<u>\$ 12,462</u>	<u>100.0%</u>

	2007		2006	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic Location:				
Central	\$ 3,999	27.5%	\$ 3,195	25.7%
South Atlantic	3,469	23.8%	3,052	24.5%
Middle Atlantic	2,915	20.0%	2,772	22.2%
Pacific	3,384	23.2%	2,615	21.0%
New England	755	5.2%	777	6.2%
Other	36	0.3%	51	0.4%
Total	<u>\$ 14,558</u>	<u>100.0%</u>	<u>\$ 12,462</u>	<u>100.0%</u>

The activity in the mortgage loan specific and general reserves as of December 31, 2007 and 2006 is summarized below (in millions):

	2007	2006
Beginning balance	\$ 26	\$ 24
Additions charged to operations	4	2
Direct writedowns	(1)	-
Ending balance	<u>\$ 29</u>	<u>\$ 26</u>

Other Investments

The components of other investments as of December 31, 2007 and 2006 were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Limited partnerships/Limited liability companies	\$ 4,762	\$ 3,501
Collateralized third party loans	2,043	1,732
Derivatives	796	526
Real estate	315	302
Total other investments	<u>\$ 7,916</u>	<u>\$ 6,061</u>

Net unrealized investment (losses) gains on limited partnerships and limited liability companies that do not apply specialized industry company accounting aggregated (\$12) million and \$4 million for the years ended December 31, 2007 and 2006, respectively, and were recorded as a component of other comprehensive income in the accompanying Consolidated Balance Sheet.

Accumulated depreciation on real estate at December 31, 2007 and 2006 was \$38 million and \$33 million, respectively. Depreciation expense totaled \$5 million and \$4 million for the years ended December 31, 2007 and 2006, respectively, and was recorded as a component of net investment income in the accompanying Consolidated Statement of Income.

Unfunded commitments on limited partnerships and limited liability companies amounted to \$4,403 million and \$3,086 million for December 31, 2007 and 2006, respectively.

Investments in real estate that have been non-income producing for the last twelve months totaled \$1 million and \$2 million at December 31, 2007 and 2006, respectively. These investments have been deemed impaired.

Variable Interest Entities (VIEs)

The Company is the collateral manager for certain collateralized debt obligations (“CDOs”), for which the Company earns fee income. Additionally, the Company may invest in debt or equity securities issued by these CDOs. CDOs raise capital by issuing debt and equity securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company’s maximum exposure to loss resulting from its relationship with the CDOs it manages is limited to its investment in the CDOs.

In addition, in the normal course of its activities, the Company will invest in structured investments, some of which are VIEs. These structured investments typically invest in fixed income investments and are managed by a third party. The Company’s maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment.

The following table presents the (i) total assets of and maximum exposure to loss relating to VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated in the Company's consolidated financial statements at December 31, 2007 and 2006; and (ii) the Company's maximum exposure to loss relating to its investments which are deemed significant variable interests. For these investments, the Company is not the primary beneficiary and therefore the investments are not consolidated.

December 31, 2007	
(In millions)	
Primary Beneficiary	Not Primary Beneficiary
Total Assets	Maximum Exposure to Loss
Asset-backed securitizations	\$ 69
Synthetic guaranteed investment contracts	-
Collateralized debt obligations	-
Private placement structured notes	245
Other long-term investments (equity in asset-backed securitizations)	15
Limited partnerships	75
Investment in synthetic fuel plant	-
Total	\$ 404

December 31, 2006	
(In millions)	
Primary Beneficiary	Not Primary Beneficiary
Total Assets	Maximum Exposure to Loss
Asset-backed securitizations	\$ 102
Synthetic guaranteed investment contracts	-
Collateralized debt obligations	-
Private placement structured notes	262
Other long-term investments (equity in asset-backed securitizations)	23
Limited partnerships	52
Investment in synthetic fuel plant	13
Total	\$ 452

At December 31, 2007 the Company was determined to be the primary beneficiary for a trust established for certain of the Company's synthetic guaranteed investment contracts. Consolidation of this VIE resulted in \$119 million of assets included in the accompanying Consolidated Balance Sheet at December 31, 2007.

At December 31, 2006 the Company was determined to be the primary beneficiary for: i) a trust established for certain of the Company's synthetic guaranteed investment contracts; and ii) an entity established as part of the Company's securitization program (subsequently liquidated in 2007). Consolidation of these VIEs resulted in \$378 million of assets included in the accompanying Consolidated Balance Sheet at December 31, 2006.

For VIEs that did not require consolidation, management determined that the Company was not the primary beneficiary. Accordingly, these VIEs are subject to ongoing review for impairment and for events that may cause management to reconsider whether or not it is the primary beneficiary in these VIEs. Investments in these VIEs represent the maximum exposure to losses from the Company's direct involvement with the VIEs. The Company has no additional economic interest in these VIEs in the form of derivatives, commitments, related guarantees, credit enhancement or similar instruments and obligations. The Company's maximum exposure to loss on variable interests in unconsolidated VIEs is limited to the carrying value of the invested assets.

Restricted Assets and Special Deposits

Assets of \$495 million and \$400 million at December 31, 2007 and 2006, respectively, were on deposit with governmental authorities or trustees as required by certain state insurance and foreign government laws and are included within related invested assets in the accompanying Consolidated Balance Sheet.

NOTE 6 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2007 and 2006 were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Fixed maturities	\$ 7,099	\$ 6,687
Equity securities	122	130
Mortgage loans	825	799
Real estate	36	37
Policy loans	443	417
Derivatives	16	9
Commercial Loans	140	146
Limited partnerships and other invested assets	718	467
Other	57	47
Gross investment income	<u>9,456</u>	<u>8,739</u>
Investment expenses	(540)	(507)
Net investment income	<u>\$ 8,916</u>	<u>\$ 8,232</u>

For the years ended December 31, 2007 and 2006, net investment gains (losses) were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Fixed maturities	\$ (143)	\$ (83)
Equity securities	1,899	1,727
Mortgage loans	(2)	-
Real estate	44	3
Limited partnerships and other invested assets	288	256
Derivatives instruments	(990)	788
Foreign exchange	(493)	(630)
Other	24	61
Net investment gains	<u>\$ 627</u>	<u>\$ 2,122</u>

The net gains on trading securities (both fixed maturities and equity securities) amounted to \$1,530 million and \$1,164 million for the years ended December 31, 2007 and 2006, respectively. Trading gains and losses are included in net investment gains in the accompanying Consolidated Statement of Income.

In 2006, the Company sold 4 million shares of Express Scripts, Inc. ("ESI") and the Company's representation on ESI's Board of Directors was reduced. As a result, the Company was no longer deemed to have the ability to exercise significant influence, as defined by Accounting Principles Board No. 18 "The Equity Method of Accounting for Investments in Common Stocks", on ESI. Accordingly, during 2006 the Company changed its accounting methodology for its investment in ESI from the equity method of accounting to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") market value accounting. The Company then classified its investment in ESI shares as trading securities, which allows the mark-to-market of the shares that the Company continues to hold to be recorded in net investment gains in the accompanying Consolidated Statement of Income. Included in total net investment gains of \$2,122 million, in the table above, is \$1,374 million consisting of a gain on the sale of ESI shares of \$146 million and the cumulative market value adjustment of \$1,228 million on ESI shares the Company continues to hold (includes the initial conversion to market value accounting). In 2007, the market value adjustment of ESI shares the Company continues to hold resulted in investment gains of \$1,488 million and is included in equity securities in the preceding chart.

Realized gains on sales of available-for-sale fixed maturities were \$390 million and \$302 million for the years ended December 31, 2007 and 2006, respectively; and realized losses were \$411 million and \$295 million, respectively.

Losses from other than temporary impairments in fixed maturities (included in net investment gains on fixed maturities above) were \$120 million and \$19 million for 2007 and 2006, respectively. Losses from other than temporary impairments in equity securities (included in net investment gains on equity securities above) were \$40 million and \$28 million for 2007 and 2006, respectively.

Gains and (losses) on derivative instruments primarily include currency swap hedges on foreign currency denominated global medium term note liabilities and equity options on ESI. The market value adjustment of the related ESI derivative discussed in Note 14 resulted in investment losses of \$1,348 million in 2007 and investment gains of \$240 million in 2006.

Foreign exchange gains and (losses) primarily relate to these global medium term note liabilities.

The following table presents the gross unrealized losses and fair values for fixed maturities and equities with unrealized losses that are deemed to be only temporarily impaired, aggregated by investment category and length of time that individual securities have been in an unrealized loss position, at December 31, 2007 and 2006 (in millions):

2007						
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities						
U.S. Treasury and U.S. Government corporations and agencies	\$ 197	\$ 2	\$ 1,551	\$ 26	\$ 1,748	\$ 28
U.S. agencies, state, and municipal	18	-	91	2	109	2
Foreign governments	511	17	139	6	650	23
Corporate	11,604	431	17,576	766	29,180	1,197
Mortgage-backed securities	4,394	131	3,804	120	8,198	251
Asset-backed securities	5,597	216	2,067	81	7,664	297
Other	51	4	63	4	114	8
Total fixed maturities	<u>22,372</u>	<u>801</u>	<u>25,291</u>	<u>1,005</u>	<u>47,663</u>	<u>1,806</u>
Equities (Unaffiliated)						
Common stock	538	89	24	3	562	92
Preferred stock	7	-	-	-	7	-
Total equities	<u>545</u>	<u>89</u>	<u>24</u>	<u>3</u>	<u>569</u>	<u>92</u>
Total temporarily impaired securities	<u>\$ 22,917</u>	<u>\$ 890</u>	<u>\$ 25,315</u>	<u>\$ 1,008</u>	<u>\$ 48,232</u>	<u>\$ 1,898</u>

2006						
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed Maturities						
U.S. Treasury and U.S. Government corporations and agencies	\$ 1,710	\$ 21	\$ 1,848	\$ 50	\$ 3,558	\$ 71
U.S. agencies, state, and municipal	190	1	235	11	425	12
Foreign governments	321	7	241	14	562	21
Corporate	10,531	163	20,120	756	30,651	919
Mortgage-backed securities	4,139	43	4,968	125	9,107	168
Asset-backed securities	2,003	10	2,034	44	4,037	54
Other	32	1	68	3	100	4
Total fixed maturities	<u>18,926</u>	<u>246</u>	<u>29,514</u>	<u>1,003</u>	<u>48,440</u>	<u>1,249</u>
Equities (Unaffiliated)						
Common stock	161	9	4	-	165	9
Preferred stock	-	-	-	-	-	-
Total equities	<u>161</u>	<u>9</u>	<u>4</u>	<u>-</u>	<u>165</u>	<u>9</u>
Total temporarily impaired securities	<u>\$ 19,087</u>	<u>\$ 255</u>	<u>\$ 29,518</u>	<u>\$ 1,003</u>	<u>\$ 48,605</u>	<u>\$ 1,258</u>

At December 31, 2007, fixed maturities represented approximately 95% of the Company's total unrealized loss amount, which was comprised of approximately 5,614 different securities. Equity securities comprised the remaining 5%, consisting of 458 securities.

Fixed maturities that were in an unrealized loss position less than twelve months at December 31, 2007, totaled \$801 million or 44% of the Company's total fixed maturities unrealized loss, and securities in an unrealized loss position greater than twelve months totaled \$1,005 million or 56% of the Company's total fixed maturities unrealized loss. Of the total amount of fixed maturities unrealized losses, \$1,448 million or 80% is related to unrealized losses on investment grade securities. Investment grade is defined

as a security having a credit rating from the National Association of Insurance Commissioners (“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 fixed maturity securities with a rating below investment grade represent \$358 million or 20% of the Company’s total fixed maturities unrealized losses. Change in interest rates, widening of credit spreads, and general market volatility sparked by the subprime credit crisis in 2007 contributed to the increase in the number of securities with fair values below amortized cost and in the amount of unrealized losses as follows:

U.S. Treasury and Government Corporations and Agencies. Unrealized losses on the Company’s investments in U.S. Treasury obligations and direct obligations of U.S. corporations and agencies were \$28 million or 2% of the Company’s unrealized losses for fixed maturities. These were spread across over 166 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.

Corporate Bonds. Unrealized losses on corporate bonds were \$1,197 million or 66% of the total unrealized losses for fixed maturities. The amount of unrealized losses on the Company’s investment in corporate bonds is spread over 3,207 individual securities with varying interest rates and maturities. Corporate securities with a fair value below 95% of the security’s amortized cost totaled \$773 million or 43% of the total unrealized losses for fixed maturities. Corporate spreads widened significantly in the second half of 2007 due to the credit crunch that was sparked by the subprime mortgage crisis. General market volatility, liquidity concerns, a slowing economy and credit deterioration in certain sectors contributed to the unrealized losses. The losses were spread across all industry sectors. The largest sectors with unrealized losses on securities with a fair value below 95% of the security’s amortized cost include finance (\$75 million), electric utilities (\$70 million), Real Estate Investment Trusts (“REIT”) (\$60 million) and banking (\$54 million). In addition to the finance, electric utilities, banking and REIT sectors, other sectors impacted in response to the subprime credit issue were home builders (\$34 million) and building products (\$31 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.

Mortgage-Backed Securities. Unrealized losses on mortgage-backed securities were \$251 million or 14% percent of the total unrealized losses for fixed maturities. The amount of unrealized losses on the Company’s investment in mortgage-backed securities was due to the widening of credit spreads for mortgage securities in response to the subprime credit crisis. These losses are spread across approximately 971 fixed and variable rate investment grade securities. Mortgage-backed securities that were priced below 95% of the security’s amortized cost represented \$148 million or 59% of total unrealized losses on mortgage-backed securities. The majority of our holdings (over 99%) are investment grade and management believes all deals remain well collateralized. The Company measures its mortgage-backed portfolio for impairments based on the security’s credit rating and whether the security has an unrealized loss. When the fair value of a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired and a realized loss is recognized in net investment gains in the accompanying Consolidated Statement of Income. The Company also evaluates these securities for other than temporary impairments based on facts and circumstances, even if there has been no negative change in estimated future cash flows. 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, therefore the Company did not consider these investments to be other than temporarily impaired.

Asset-Backed Securities. Unrealized losses on asset-backed securities were \$297 million or 16% of the total unrealized losses for fixed maturities. The unrealized losses on these investments are largely due to the declining market for mortgage related securities in reaction to the subprime credit crisis. These losses are spread across approximately 864 securities. Similar to mortgage-backed 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 a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired and a realized loss is recognized in net investment gains in the accompanying Consolidated Statement of Income. The Company also evaluates these securities for other than temporary impairments based on facts and circumstances, even if there has been no negative change in estimated future cash flows. Asset-backed securities that were priced below 95% of the security's amortized cost represented \$196 million or 66% of the total unrealized losses for asset-backed securities.

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale investments are included in the Consolidated Balance Sheet as a component of accumulated other comprehensive income. Changes in these amounts include reclassification adjustments for prior period unrealized gains (losses) that have been recognized as realized gains (losses) during the current year and are included in net investment gains in the accompanying Consolidated Statement of Income.

The amounts for the years ended December 31, 2007 and 2006 are as follows (in millions):

	<u>2007</u>	<u>2006</u>
Net unrealized investment gains, beginning of the year	\$ 764	\$ 1,038
Changes in net unrealized investment gains (losses) attributable to investments:		
Net unrealized investment (losses) gains on investments arising during the period	(170)	(533)
Less: Reclassification adjustments for gains included in net income	284	187
Change in net unrealized investment gains, net of adjustments	(454)	(720)
Impact of net unrealized investment gains (losses) on:		
Policyholders' account balances and future policy benefits	173	226
Other assets (Sales inducements)	(2)	4
Deferred policy acquisition costs	62	216
Change in net unrealized investment gains	(221)	(274)
Net unrealized investment gains, end of year	<u>\$ 543</u>	<u>\$ 764</u>

Net unrealized investment losses on investments arising during the period reported in the above table are net of income tax benefit of \$(92) million and \$(287) million for the years ended December 31, 2007 and 2006, respectively.

Reclassification adjustments reported in the above table for the years ended December 31, 2007 and 2006 are net of income tax expense of \$153 million and \$101 million, respectively.

Policyholders' account balances and future policy benefits reported in the above table are net of income tax expense of \$93 million and \$122 million for the years ended December 31, 2007 and 2006, respectively.

Other assets (sales inducements) reported in the above table are net of income tax (benefit) expense of \$(1) million and \$2 million for the years ended December 31, 2007 and 2006, respectively.

Deferred policy acquisition costs in the above table for the years ended December 31, 2007 and 2006 are net of income tax expense of \$34 million and \$116 million, respectively.

The components of net unrealized investment gains reported in other comprehensive income at December 31, 2007 and 2006 are as follows (in millions):

	<u>2007</u>	<u>2006</u>
Net unrealized gains on investments	\$ 1,931	\$ 2,628
Impact of net unrealized investment gains on:		
Policyholders' account balance and future policy benefits	(387)	(651)
Other assets (sales inducements)	1	4
Deferred policy acquisition cost	(710)	(805)
Deferred taxes	(292)	(412)
Total net Unrealized Investment Gains	<u>\$ 543</u>	<u>\$ 764</u>

NOTE 7 - SEPARATE ACCOUNTS

Separate Accounts Registered with the SEC

The Company maintains separate accounts, which are registered with the SEC, for its variable deferred annuity and variable life products with assets of \$17,740 million and \$15,662 million at December 31, 2007 and 2006, respectively. The assets of these separate accounts, which are carried at fair value, represent investments in shares of the New York Life sponsored MainStay VP Series Fund and other non-proprietary funds.

Separate Accounts Not Registered with the SEC

The Company also maintains separate accounts, which are not registered with the SEC, with assets of \$4,123 million and \$3,362 million at December 31, 2007 and 2006, respectively. The assets in these separate accounts are comprised of privately placed corporate bonds, mortgage-backed securities, commercial mortgages and equities, as well as publicly traded investment grade corporate bonds, high-yield bonds, treasury bonds and equities. The assets in these separate accounts are carried at fair value.

NOTE 8 - DEFERRED POLICY ACQUISITION COSTS AND SALES INDUCEMENTS

An analysis of deferred policy acquisition costs for the years ended December 31, 2007 and 2006 was as follows (in millions):

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 6,113	\$ 5,189
Cumulative effect of accounting change, pre-tax (SOP 05-1)	(10)	-
Balance at beginning of year, as adjusted	<u>6,103</u>	<u>5,189</u>
Current year additions	1,564	1,488
Amortized during year	(1,152)	(926)
Balance at end of year before related adjustments	<u>6,515</u>	<u>5,751</u>
Adjustment for changes in unrealized investment gains (losses)	95	332
Cumulative translation adjustment	6	30
Balance at end of year	<u>\$ 6,616</u>	<u>\$ 6,113</u>

Sales Inducements

Changes in Deferred Sales Inducements are as follow (in millions):

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$ 228	\$ 230
Cumulative effect of accounting change, pre-tax (SOP 05-1)	6	-
Balance at beginning of year, as adjusted	<u>234</u>	<u>230</u>
Capitalization	90	37
Amortization	(48)	(44)
Unrealized investment gains (losses)	(4)	5
Balance at end of year	<u>\$ 272</u>	<u>\$ 228</u>

NOTE 9 – POLICYHOLDERS’ LIABILITIES

Policyholders’ Account Balances

Policyholders’ account balances at December 31, 2007 and 2006 were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Deferred annuities	\$ 23,950	\$ 23,243
Guaranteed investment contracts	25,825	23,330
Universal life contracts	16,734	16,168
Immediate participation guarantee contracts	3,369	3,490
Dividend accumulations and continued interest accounts	1,501	1,502
Annuities certain	564	565
Supplementary contracts without life contingencies	776	736
Other	285	136
Total	<u>\$ 73,004</u>	<u>\$ 69,170</u>

The Company sells funding agreements to special purpose entities (“SPE”), which purchase the funding agreements with the proceeds from medium term notes having payment terms substantially identical to the funding agreements issued to the SPE. Guaranteed investment contracts in the above chart issued by the Company include those funding agreements issued to the SPE. At December 31, 2007 and 2006, the balance under those funding agreements issued by the Company to the SPE was \$12,525 million and \$9,689 million, respectively.

The following table highlights the interest rate assumptions generally utilized in calculating policyholders' account balances, as well as certain withdrawal characteristics associated with these accounts at December 31, 2007:

Product	Interest Rate	Withdrawal/Surrender Charges
Deferred annuities	2.3% to 8.0%	Surrender charges 0% to 10% for up to 10 years.
Guaranteed investment contracts	2.2% to 15.2%	Where permitted by contract, subject to fair value withdrawal provisions for any funds withdrawn other than for benefit responsive and contractual payments.
Universal life contracts	3.1% to 5.8%	Various up to 19 years.
Immediate participation guarantee contracts	4.7% to 8.0%	Contractually limited or subject to fair value adjustment.
Dividend accumulations and Continued interest accounts	2.1% to 5.0%	Generally, not subject to withdrawal/surrender charges, except for certain contracts where withdrawal/surrender is limited or subject to a fair value adjustment.
Annuities Certain	3.0% to 10.3%	No surrender or withdrawal charges.
Supplementary contracts without life contingencies	3.5%	No surrender or withdrawal charges.

The following table discloses the fair values of the Company's investment contracts at December 31, 2007 and 2006 (in millions):

	<u>2007</u>	<u>2006</u>
Deferred annuities	\$ 23,950	\$ 23,243
Guaranteed investment contracts	25,621	23,168
Immediate participation guarantee contracts	3,378	3,481
Dividend accumulations and continued interest accounts	1,501	1,502
Annuities certain	612	637
Supplementary contracts without life contingencies	776	736
Other	285	136
Total	<u>\$ 56,123</u>	<u>\$ 52,903</u>

For deferred annuities, dividend accumulations, supplementary contracts without life contingencies and other deposit type contracts, account value approximates fair value. For funding agreements backing medium term notes, fair values were based on available market prices for the notes. For other guaranteed investment contracts and annuities certain liabilities, fair values are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For immediate participation guarantee contracts, which have no defined maturities, fair values are equal to the estimated amount payable on demand at the balance sheet date.

Future Policy Benefits

Future policy benefits at December 31, 2007 and 2006 were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Life insurance	\$ 50,653	\$ 47,678
Individual and group payout annuities	8,183	7,492
Group annuities	3,115	3,111
Other contract liabilities	1,948	1,909
Total future policy benefits	<u>\$ 63,899</u>	<u>\$ 60,190</u>

Participating life insurance contracts represented 71% and 72% of total life insurance in force at December 31, 2007 and 2006, respectively. Participating life insurance contracts also represented 95% of total life insurance premiums for both of the years ended December 31, 2007 and 2006, respectively.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves at December 31, 2007:

Product	Mortality	Interest Rate	Estimation Method
Traditional life insurance policies	Generally rates guaranteed in calculating cash surrender values.	2.0% to 5.5%	Net level premium.
Term life insurance policies	Based upon best estimates at time of policy issuance with provision for adverse deviations ("PAD").	2.0% to 7.7%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD.
Individual and group payout annuities	Based upon best estimates at time of policy issuance with PAD.	4.4% to 9.5%	Present value of expected future payments at a rate expected at issue with PAD.
Group annuities	Mostly 1983 Group Annuity Mortality Tables.	2.5% to 11.0%	Present value of expected future payments at rates expected at issue, or for issues prior to 1993 at the then expected portfolio rates.

Guaranteed Minimum Benefits

At December 31, 2007 and 2006, the Company had the following variable contracts with guarantees. (Note that the Company's variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive). For guarantees of amounts in the event of death, the net amount at risk is defined as the current guaranteed minimum death benefit ("GMDB") in excess of the current account balance at the balance sheet date. For guarantees of accumulation balances, the net amount at risk is defined as the guaranteed minimum accumulation benefit ("GMAB") minus the current account balance.

Variable Annuity Contracts – GMDB and GMAB

The Company issues certain variable annuity contracts with GMDB and GMAB features that guarantee either:

- a) Return of deposits: the benefit is the greater of current account value or premiums paid (adjusted for withdrawals).
- b) Ratchet: the benefit is the greatest of the current account value, premiums paid (adjusted for withdrawals), or the highest account value on any contractually specified anniversary up to contractually specified ages (adjusted for withdrawals).

The following chart provides the account value, net amount at risk and average attained age of contractholders at December 31, 2007 and 2006 for GMDB's and GMAB's (\$ in millions):

2007

	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value	\$4,635	\$1,808	\$13,989
Net amount at risk	\$11	\$5	\$168
Average attained age of contract holders	56	-	56

2006

	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value	\$3,962	\$1,281	\$13,456
Net amount at risk	\$16	\$1	\$177
Average attained age of contract holders	56	-	56

The following summarizes the liabilities for guarantees on variable contracts reflected in the general account in future policy benefits for GMDB and policyholder account balances for GMAB in the accompanying Consolidated Balance Sheet (in millions):

	<u>GMDB</u>	<u>GMAB</u>	<u>Totals</u>
Balance at January 1, 2006	\$ 30	\$ 9	\$ 39
Incurred guarantee benefits	4	(2)	2
Paid guarantee benefits	(3)	-	(3)
Balance at December 31, 2006	<u>31</u>	<u>7</u>	<u>38</u>
Incurred guarantee benefits	13	65	78
Paid guarantee benefits	(2)	-	(2)
Balance at December 31, 2007	<u><u>\$ 42</u></u>	<u><u>\$ 72</u></u>	<u><u>\$ 114</u></u>

For GMABs, incurred guaranteed minimum benefits incorporates all changes in fair value other than amounts resulting from paid guarantee benefits. The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following assumptions and methodology were used to determine the GMDB liability at December 31, 2007 and 2006, respectively:

- Data used was 1,000 stochastically generated investment performance scenarios.
- Mean investment performance assumption ranged from 0.77% to 7.50% for 2007 and 7.02% to 7.24% for 2006.

- Volatility assumption was 14.62% for 2007 and 14.58% for 2006.
- Mortality was assumed to be 91% and 93% of the A2000 table for 2007 and 2006, respectively.
- Lapse rates vary by contract type and duration and range from 0.5% to 30%, with an average of 12% for 2007, and 0% to 18%, with an average of 8% for 2006.
- Discount rates ranged from 5.26% to 7.61% for 2007 and 6.01% to 7.61% for 2006.

GMAB's are considered to be derivatives under SFAS No. 149 and are recognized at fair value through interest credited to policyholder account balances.

The following table presents the aggregate fair value of assets, by major investment fund options (including the general and separate account fund options), held by variable annuity products that are subject to GMDB and GMAB benefits and guarantees. Since variable contracts with GMDB guarantees may also offer GMAB guarantees in each contract, the GMDB and GMAB amounts listed are not mutually exclusive (in millions):

Investment Fund Option:	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>GMDB</u>	<u>GMAB</u>	<u>GMDB</u>	<u>GMAB</u>
Separate account:				
Equity	\$ 9,326	\$ 1,169	\$ 8,897	\$ 918
Fixed income	2,148	184	2,413	173
Balanced	2,063	162	1,830	110
General account	5,087	293	4,278	80
Total	<u>\$ 18,624</u>	<u>\$ 1,808</u>	<u>\$ 17,418</u>	<u>\$ 1,281</u>

SOP 03-01 Liability for Individual Life Products

SOP 03-01 provides guidance for calculating additional liabilities for contracts with certain insurance benefit features. These certain insurance benefit features are generally those that result in profits in early years and losses in subsequent years. For the Company's Individual Life contracts, SOP 03-01 primarily affects universal life policies with cost of insurance (COI) charges that are significantly less than the expected mortality costs in the intermediate and later policy durations.

Generally, the Company has separately defined an insurance benefit feature to be the excess of expected mortality over all assessments. This insurance benefit feature is in addition to the base mortality feature, which the Company defines as expected mortality not in excess of assessments.

The following table summarizes the SOP 03-01 liability for individual life products reflected in the general account in future policy benefits and policyholder liabilities (in millions).

	<u>2007</u>	<u>2006</u>
Beginning balance	\$ 23	\$ 15
Net liability increase	6	8
Ending balance	<u>\$ 29</u>	<u>\$ 23</u>

NOTE 10 - INCOME TAXES

A summary of the net income tax expense included in the accompanying Consolidated Statement of Income was as follows (in millions):

	<u>2007</u>	<u>2006</u>
Current		
Federal	\$ 448	\$ 612
State and Local	7	3
Foreign	33	6
	<u>488</u>	<u>621</u>
Deferred		
Federal	96	422
Foreign	37	23
	<u>133</u>	<u>445</u>
Income tax expense	<u>\$ 621</u>	<u>\$ 1,066</u>

The components of the net deferred tax asset/(liability) as of December 31, 2007 and 2006 were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Future policy benefits	\$ 1,871	\$ 2,151
Agent & employee benefits	920	946
Net operating losses	164	71
Other reserves	25	34
Investment in foreign subsidiary	-	7
Other deferred tax asset	10	28
Deferred tax assets before valuation allowance	<u>2,990</u>	<u>3,237</u>
Valuation allowance	(23)	(21)
Gross deferred tax assets	<u>2,967</u>	<u>3,216</u>
Deferred tax liabilities:		
Deferred policy acquisition costs	1,437	1,365
Investments	1,053	1,266
Deferred distribution costs	15	19
Intangibles	73	72
Investment in foreign subsidiary	16	8
Other deferred tax liabilities	15	34
Gross deferred tax liabilities	<u>2,609</u>	<u>2,764</u>
Net deferred tax asset/(liability)	<u>\$ 358</u>	<u>\$ 452</u>

Deferred income taxes are generally recognized based on enacted tax rates when assets and liabilities have different values for financial statement and tax purposes. A valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

The deferred tax asset relates to temporary differences that are expected to reverse as net ordinary deductions. The Company has recorded a valuation allowance of \$23 million and \$21 million related to foreign net operating loss (“NOLs”) carryforwards and other future deductible amounts at December 31, 2007 and 2006, respectively. This valuation allowance reflects management's assessment, based on

available information, that it is more likely than not that the deferred income tax asset for these amounts of foreign net operating loss carryforwards will not be realized. The benefit of these carryforwards may be recognized when management believes it is more likely than not that the deferred income tax asset is realizable.

At December 31, 2007 and 2006, the Company had gross NOLs of \$606 million and \$236 million, respectively. Of these amounts, \$390 million and \$89 million, respectively, are attributable to the Company's Mexican subsidiary and expire between 2008 and 2017. The balance of the remaining NOLs is attributable to certain other foreign subsidiaries and expires between 2008 and 2012. Gross deferred tax assets with respect to the NOLs were \$164 million at December 31, 2007 and \$71 million at December 31, 2006. Of these amounts, \$109 million and \$25 million, respectively, are attributable to the Company's Mexican subsidiary (28% tax rate).

The Company has not provided for U.S. income taxes on unremitted foreign earnings of certain non-U.S. operations, specifically one of the Company's Mexican subsidiaries and its Canadian branch operations, because such earnings are considered to be permanently reinvested in such operations. The Company has undistributed earnings of foreign subsidiaries of \$385 million and \$252 million at December 31, 2007 and 2006, respectively, for which deferred taxes have not been provided. Determining the tax liability that would arise if these earnings were remitted is not feasible.

At December 31, 2007 and 2006, the Company recorded a current income tax payable of \$217 million and \$68 million, respectively, which was included in other liabilities in the accompanying Consolidated Balance Sheet.

Set forth below is a reconciliation of the statutory federal income tax rate to the effective tax rate for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Statutory federal income tax rate	35.00%	35.00%
Foreign operations, net of foreign taxes	(0.96)	(0.42)
Tax exempt income	(3.99)	(2.19)
Investment credit	(1.93)	(1.19)
Other	(1.47)	(0.92)
Effective tax rate	<u>26.65%</u>	<u>30.28%</u>

The Company's federal income tax returns are routinely examined by the IRS and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 2001 and has begun auditing tax years 2002 through 2004. There were no material effects on the Company's consolidated results of operations as a result of these audits. The Company believes that its recorded income tax liabilities are adequate for all open years.

A reconciliation of the beginning and ending amount of unrecognized tax benefits at December 31, 2007, is as follows:

	Total Unrecognized Tax Benefits
	(In millions)
Balance at January 1, 2007 (date of adoption of FIN 48)	\$ 394
Additions for tax positions of prior years	1
Reductions for tax positions of prior years	(12)
Additions for tax positions of current year	24
Settlements with tax authorities	(2)
Balance, December 31, 2007	\$ 405

The total amount of unrecognized tax benefit that, if recognized, would impact the effective tax rate is \$115 million. The Company classifies interest and penalties related to tax uncertainties as income tax expense. Total interest and penalty for the year ended December 31, 2007 aggregated \$34 million and is included in the accompanying Consolidated Statement of Income. At December 31, 2007, the Company had accrued \$117 million of liabilities for tax-related interest, which is reported on the accompanying Balance Sheet (included in other liabilities). The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

NOTE 11 – REINSURANCE

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

Individual Medical and Disability Income coverage are no longer written by the Company. The Company has no risk on its Disability Income policies which are reinsured 100% with UNUM on a modified coinsurance basis. The Company reinsures 40% of medical coverage and 90% of Medicare Supplement coverage with Mutual of Omaha.

The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable in order to minimize its exposure to loss from reinsurer insolvencies. When necessary, an allowance is recorded for reinsurance the Company cannot collect. Three reinsurance companies account for 59% and 58% of the reinsurance ceded at December 31, 2007 and December 31, 2006.

Life insurance reinsured was 26% and 28% of total life insurance in-force at December 31, 2007 and 2006, respectively. Group life insurance reinsured was less than 1% of total life insurance in-force at December 31, 2007 and 2006, respectively.

The effects of reinsurance for the years ended December 31, 2007 and 2006 were as follows (in millions):

	<u>2007</u>	<u>2006</u>
Premiums:		
Direct	\$ 10,118	\$ 9,283
Assumed	206	266
Ceded	(445)	(449)
Net premiums	<u>\$ 9,879</u>	<u>\$ 9,100</u>
FAS 97 fee income ceded	<u>\$ 198</u>	<u>\$ 168</u>
Policyholders' benefits ceded	<u>\$ 786</u>	<u>\$ 528</u>
Decrease (increase) in ceded liabilities for future policy benefits	<u>\$ (4)</u>	<u>\$ (7)</u>
Reinsurance recoverable	<u>\$ 495</u>	<u>\$ 462</u>
Reinsurance payable	<u>\$ 104</u>	<u>\$ 104</u>

NOTE 12 – DEBT

For the years ended December 31, 2007 and 2006, the fair value of debt was \$2,620 million and \$2,542 million, respectively. Debt consisted of the following at December 31, 2007 and 2006 (in millions):

	<u>2007</u>	<u>2006</u>
Capital Corporation's commercial paper debt issuance, various maturity dates through March 2008 and February 2007 for 2007 and 2006, respectively, (the weighted average interest rate is approximately 4.32% and 5.31% for 2007 and 2006, respectively)	\$ 990	\$ 492
Shared Appreciation Income Linked Securities, due August 22, 2011 (coupon rate of 3.3%)	222	216
Shared Appreciation Income Linked Securities II, due April 28, 2008	301	288
5.875% Surplus Notes, due May 15, 2033	991	991
Non-recourse debt	54	455
Other	56	64
Total debt	<u>\$ 2,614</u>	<u>\$ 2,506</u>

At December 31, 2007 and 2006, the face value of commercial paper issued by New York Life Capital Corporation ("Capital Corporation"), an indirect wholly owned subsidiary of NYLIC, was approximately \$995 million and \$497 million, respectively, with an unamortized discount of \$5 million for 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006, interest expense totaled \$26 million and \$25 million, respectively.

On August 16, 2001, the Company 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") in the above table. Under the agreement, the Company has entered into a forward sale of certain of its shares of ESI, an investment of the Company.

The Company may deliver up to 18 million shares of ESI common stock on August 22, 2011 or settle the transaction in cash instead of delivering shares. Upon entering into the transaction the Company received \$13.52 per ESI share or \$243 million, less offering costs of \$4 million, bringing net proceeds to

\$239 million and is entitled to 100% of the appreciation up to \$17.57 and 23% of the appreciation in excess of \$17.57) per share. In accordance with SFAS No. 149, \$54 million of the proceeds represented the fair value of the derivative embedded in the contract. The Company recorded a discounted debt obligation of \$189 million with a par value of \$243 million due on August 22, 2011 and deferred offering costs (included in other assets) of \$4 million. For the years ended December 31, 2007 and 2006, the accretion of interest expense was \$6 million and \$5 million, respectively. The Company pays CS a 3.3% annual coupon payment quarterly on each November 22, February 22, May 22, and August 22. For each of the years ended December 31, 2007 and 2006, interest expense was \$8 million. At December 31, 2007 and 2006, accrued interest was \$1 million. All share amounts and prices have been adjusted to reflect a two-for-one ESI stock split in 2007.

On April 28, 2003, the Company entered into another agreement with CS, referred to as Shared Appreciation Income Linked Securities II (“SAILS II”) in the above table. Under this agreement, the Company has entered into a forward sale of certain of its shares of ESI. The Company may deliver up to 22 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 \$13.86 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 \$16.63 per share. Any appreciation in excess of \$16.63 per share will be due to CS upon settlement. In accordance with SFAS No. 149, \$27 million of the proceeds represented the fair value of the derivative embedded in the contract. The Company recorded a discounted debt obligation of \$246 million with a par value of \$305 million due on April 28, 2008. For the years ended December 31, 2007 and 2006, the accretion of interest expense totaled \$13 million and \$12 million, respectively. All share amounts and prices have been adjusted to reflect a two-for-one ESI stock split in 2007.

On May 5, 2003, NYLIC issued Surplus Notes (“Notes”) with a principal balance of \$1 billion, at a discount of \$9.8 million, bearing interest at 5.875%, with a maturity date of May 15, 2033. The notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended and are administered by a U.S. bank as registrar/paying agent. Interest on these Notes is scheduled to be paid semiannually on May 15 and November 15 of each year.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of NYLIC. 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 of the New York Department of Insurance and only out of surplus funds, which the Superintendent determines to be available for such payments under New York State Insurance law. Provided that approval is granted by the Superintendent, the Notes may be redeemed at the option of the Company at any time at the “make-whole” redemption price equal to the greater of 100% 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 (“bps”).

For the years ended December 31, 2007 and 2006, interest expense on NYLIC’s surplus notes totaled \$59 million, respectively. Accrued interest at December 31, 2007 and 2006 was \$7 million.

At December 31, 2007, the Company was required to consolidate one limited partnership (“LP”) with an outstanding debt balance. For the year ended December 31, 2007, the debt outstanding relating to the consolidated LP was \$54 million. At December 31, 2006, the Company was required to consolidate one CDO (subsequently liquidated in 2007) and one LP with an outstanding debt balance. For the year ended December 31, 2006, the debt outstanding relating to the consolidated CDO and LP was \$455 million.

Other debt primarily represents capital leases. Amounts due on other debt are, \$23 million in 2008, \$8 million in 2009, \$9 million in 2010, \$2 million in 2011, \$2 million in 2012 and \$11 million thereafter.

Line of Credit

The Company has entered into a \$1.5 billion revolving credit facility with a consortium of banks effective July 27, 2005. The agreement is a five-year revolving credit facility that charges an annual facility fee of 4 bps. The borrowing rate is 16 bps over LIBOR. If borrowings exceed 50% of the total facility, the borrowing rate will be 16 bps over LIBOR plus 5 bps. The annual facility fees and borrowing rates could increase if New York Life's Standard & Poor's and Moody's Financial Strength ratings are downgraded.

To date, the Company has not utilized this credit facility.

NOTE 13 - BENEFIT PLANS

Pension Plans

NYLIC 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 NYLIC 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 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%. NYLIC 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.

NYLIC 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 NYLIC 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 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 and the additional amount 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 NYLIC contributions. NYLIC'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. NYLIC made no contributions to the Pension Plan in 2007 and 2006 and no contributions to the retirement plan in 2007. Contributions to the Retirement Plan in 2006 were \$125 million.

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 the Company's 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.

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

Grantor Trusts

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

Other Postretirement Benefits

NYLIC's Group Plan for NYLIC employees and certain eligible employees of subsidiaries that adopt the Group Plan provides certain health and life insurance benefits for eligible retired employees and their eligible dependents. Employees who retired prior to January 1, 1993 do not make contributions toward retiree health and life 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.

NYLIC'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. For the years ended December 31, 2007 and 2006, prefunding contributions to the Retired Employee VEBA Trust totaled \$1 million and \$2 million, respectively. For the years ended December 31, 2007 and 2006, there were no prefunding contributions to the Retired Agent VEBA Trust.

Postemployment Benefits and Compensated Absences

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

The Company has accrued a \$39 million and \$24 million obligation related to these benefits at December 31, 2007 and 2006, respectively. For the years ended December 31, 2007 and 2006, the net periodic benefit cost associated with these programs was \$12 million and \$7 million, respectively.

The adoption of SFAS No. 158 resulted in a reduction of \$805 million, net of income tax, to accumulated other comprehensive income at December 31, 2006. The following table summarizes the incremental effects of applying SFAS No. 158 on individual line items in the accompanying Consolidated Balance Sheet on December 31, 2006:

	December 31, 2006		
	Pre-SFAS No. 158	Incremental effect of adopting SFAS No. 158	Post-SFAS No. 158
	(in millions)		
Other assets	\$ 3,296	\$ (538)	\$ 2,758
Deferred income tax	(45)	497	452
Total other assets	<u>\$ 3,251</u>	<u>\$ (41)</u>	<u>\$ 3,210</u>
Total assets	\$ 182,384	\$ (41)	\$ 182,343
Other liabilities	\$ 5,621	\$ 764	\$ 6,385
Total liabilities	\$ 162,190	\$ 764	\$ 162,954
Minority interest	\$ 693	\$ -	\$ 693
Accumulated other comprehensive income (loss)	\$ 474	\$ (805)	\$ (331)
Total equity	\$ 19,501	\$ (805)	\$ 18,696

The tables below and at the top of the next page (in millions) 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.

	Pension		Other	
	Plan Benefits		Postretirement Plan	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year*	\$ 4,094	\$ 4,085	\$ 1,253	\$ 1,197
Service cost	112	114	30	31
Interest cost	234	216	73	63
Contributions by plan participants	-	-	3	3
Actuarial (gains) losses	(262)	(159)	(100)	21
Change in Measurement Date (1)	27	-	31	-
Benefits paid	(189)	(175)	(53)	(58)
Medicare Part D Subsidy Receipts	-	-	3	-
Plan amendments	(2)	13	(30)	(4)
	<u>\$ 4,014</u>	<u>\$ 4,094</u>	<u>\$ 1,210</u>	<u>\$ 1,253</u>
Benefit obligation at end of year*	<u>\$ 4,014</u>	<u>\$ 4,094</u>	<u>\$ 1,210</u>	<u>\$ 1,253</u>
Change in plan assets:				
Fair value of plan assets at beginning of year*	\$ 3,567	\$ 3,210	\$ 435	\$ 412
Actual return on plan assets	157	395	19	35
Contributions by employer	17	137	46	43
Contributions by plan participants	-	-	3	3
Change in Measurement Date (1)	149	-	22	-
Benefits paid	(189)	(175)	(53)	(58)
	<u>\$ 3,701</u>	<u>\$ 3,567</u>	<u>\$ 472</u>	<u>\$ 435</u>
Fair value of plan assets at end of year*	<u>\$ 3,701</u>	<u>\$ 3,567</u>	<u>\$ 472</u>	<u>\$ 435</u>
Funded Status:				
Funded Status*	\$ (313)	\$ (528)	\$ (738)	\$ (817)
Contributions to VEBA Trust	-	-	-	2
Contributions by employer	-	4	-	11
Medicare Part D subsidy	-	-	-	(1)
	<u>\$ (313)</u>	<u>\$ (524)</u>	<u>\$ (738)</u>	<u>\$ (805)</u>
Net amount recognized	<u>\$ (313)</u>	<u>\$ (524)</u>	<u>\$ (738)</u>	<u>\$ (805)</u>
Accumulated benefit obligation for all defined pension plans at December 31	<u>\$ 3,643</u>	<u>\$ 3,667</u>		

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

(1) The Company adopted the measurement date provision of SFAS No. 158, as of January 1, 2007, which resulted in a change in the measurement date from September 30th to December 31st.

	Pension		Other	
	Plan Benefits		Postretirement Plan Benefits	
	2007	2006	2007	2006
Amounts recognized in the accompanying balance sheet:				
Other liabilities	\$ (313)	\$ (524)	\$ (738)	\$ (805)
Amounts recognized in accumulated other comprehensive income:				
Net actuarial loss	\$ 676	\$ 1,048	\$ 208	\$ 305
Prior service cost/(credit)	36	48	(87)	(65)
Total	\$ 712	\$ 1,096	\$ 121	\$ 240
Estimated amounts to be amortized from accumulated other comprehensive income into net periodic benefit cost during fiscal year 2008:				
Net actuarial loss	\$ 36		\$ 9	
Prior service cost/(credit)	7		(9)	
Total	\$ 43		\$ -	
Other changes in plan assets and benefit obligation recognized in other comprehensive income:				
Net actuarial gain	\$ (147)		\$ (85)	
Amortization of net actuarial loss	(70)		(13)	
Prior service credit related to plan amendments	(2)		(30)	
Amortization of prior service (credit)/cost	(8)		6	
Change in Measurement Date (1)	(158)		2	
Total recognized in other comprehensive income	\$ (385)		\$ (120)	
Total recognized in net periodic pension cost and Other Comprehensive income	\$ (233)		\$ (43)	

(1) Refer to footnote on page 48.

The components of net periodic benefit cost at December 31, were as follows (in millions):

Components of net periodic benefit cost:	Pension		Other Postretirement	
	Plan Benefits		Plan Benefits	
	2007	2006	2007	2006
Service cost	\$ 112	\$ 114	\$ 30	\$ 31
Interest cost	234	216	73	63
Expected return on plan assets	(272)	(251)	(33)	(30)
Amortization of net actuarial loss	70	95	13	11
Amortization of prior service cost/(credit)	8	7	(6)	(6)
Net periodic benefit cost	\$ 152	\$ 181	\$ 77	\$ 69

Weighted-average assumptions used to determine benefit obligations at December 31:

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2007	2006	2007	2006
	Weighted-average assumptions used to determine benefit obligations*:			
Discount rate	6.50%	5.75%	6.50%	5.75%
Rate of compensation increase:				
Employees	5.40%	5.40%	5.40%	5.40%
Agents	5.60%	5.60%	N/A	N/A

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

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2007	2006	2007	2006
	Weighted-average assumptions used to determine net periodic benefit cost:			
Discount rate	5.80%	5.40%	5.80%	5.40%
Expected return on plan assets	8.25%	8.25%	7.25%/7.75%**	7.25%/7.75%**
Rate of compensation increase:				
Employees	5.40%	5.40%	5.40%	5.40%
Agents	5.60%	5.60%	N/A	N/A

*For 2006 a September 30 measurement date was used.

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

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 discount rates used to determine the Company's pension and other postretirement plan obligations were based on a hypothetical double A yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to be non-callable and have a rating of Aa 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 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 determining the obligations in 2007, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 8% for 2008 for all participants. In measuring the 2007 obligations the annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 12% for 2008 for all participants. For the 2007 measurement, the rate was assumed to decline gradually 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 determining the obligations in 2006, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 8% for 2007 for all participants. In measuring the 2006 obligations the annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 12% for 2007 for all participants. For the 2006 measurement, the rate was assumed to decline gradually 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.

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

	<u>2007</u> One Percent Increase	<u>2007</u> One Percent Decrease
Effect on total of service and interest cost components	\$ 13	\$ (10)
Effect on accumulated postretirement benefit obligation	\$ 120	\$ (99)

The weighted-average asset allocation for the agent and employee defined benefit pension plans at December 31, 2007 and September 30, 2006, and target allocations by asset category were as follows:

<u>Asset Category</u>	Target Allocation	Percentage of Plan Assets	
	2007 and 2006	2007	2006
Fixed income	40%	36%	42%
Equity securities	60%	64%	58%
Total	100%	100%	100%

Equity securities include common stock in the amount of \$2,370 million (64% of total assets of the pension plans) and \$2,070 million (58% of total assets of the pension plans) at December 31, 2007 and September 30, 2006, respectively.

The Investment Committees of the Agent and Employee defined benefit pension and postretirement benefit plans have established a broad investment strategy targeting an asset allocation of 60% equity securities and 40% fixed income for the pension plans, and 70% equity securities and 30% fixed income for the postretirement benefit plans. 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 and the correlations of those returns and input from the plans' investment consultant. The Committees regularly review the plans' asset allocation versus the targets and make adjustments as appropriate. The Committees review the investment performance of the General Account contract for each Plan and the separate accounts under each Plan's Separate Account contract to insure the assets are meeting each plan's objectives.

The Company's weighted-average asset allocation for the other postretirement benefit plans at December 31, 2007 and September 30, 2006, and target allocations by asset category under the VEBA Trusts were as follows:

Asset Category	Target Allocation Percentage		Percentage of VEBA Trust Assets			
	2007 and 2006		2007		2006	
	Health	Life	Health	Life	Health	Life
Fixed income securities	30%	30%	38%	28%	39%	29%
Equity securities	70%	70%	62%	72%	61%	71%
Total	100%	100%	100%	100%	100%	100%

Equity securities include common stock in the amount of \$296 million (65% of total VEBA Trust Life and Health assets) and \$269 million (64% of total VEBA Trust Life and Health assets) at December 31, 2007 and September 30, 2006, respectively.

2007 Plan Amendments

The Company performed a thorough review of the Pension Plan. As a result of this review, the Company will be implementing changes effective January 1, 2008. The changes to the defined benefit pension plan include modifying the early retirement benefits. As of December 31, 2007, current employees are eligible for retirement benefits if they retire at age 55 with 10 years of service. Effective January 1, 2008 for new hires, either age 55 and 15 years or age 60 and 10 years are necessary for eligibility. In addition, the early retirement reduction factors have increased (3.6% to 5.0%) for new hires and certain other employees. These changes were reflected in the 2007 year-end disclosures.

In addition, effective January 1, 2008 the Company will be implementing changes to the retiree medical program for Agents and Employees. The changes include replacing the current insurance offerings with account based plans for retired agents and modifying the eligibility for benefits and the level of Company-provided subsidy for certain employees.

Effective January 1, 2008, the Agents' current medical options were replaced with a Health Maintenance Organization ("HMO") with a Health Reimbursement Account ("HRA"), HMO only, Health Savings Account ("HSA") with a Preferred Provider ("PP") and PP with HRA. These changes were reflected in the 2007 year-end disclosures.

2006 Plan Amendments

In 2005, the Company entered into a settlement agreement in Lucich vs. New York Life Insurance Company. As a result, 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 prospective basis. The Lucich settlement was reflected in 2006 year-end disclosures.

Effective January 1, 2007, the Employees' current medical options were replaced with a HMO with a HRA, HMO only, HSA with a PP and PP with HRA. These changes were reflected in the 2006 year-end disclosures.

Cash Flows

The estimated future benefit payments are based on the same assumptions as used to measure the benefit obligations at December 31, 2007 and 2006. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan Benefits	Other Post Retirement Plan Benefits	Postemployment Plan Benefits	Estimated Federal Subsidy
2008	207	69	7	(5)
2009	217	75	7	(5)
2010	229	80	7	(6)
2011	241	85	8	(6)
2012	253	90	8	(7)
Thereafter (2013-2017)	1,466	646	47	(52)
Total	\$ 2,613	\$ 1,045	\$ 84	\$ (81)

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 2008.

contributions up to 3% of base salary and eligible incentive pay. For the years ended December 31, 2007 and 2006, the Company's matching contributions to EPSI totaled \$20 million, and \$19 million, respectively. EPSI also provides that New York Life Investment Management LLC ("NYLIM"), New York Life Trust Company ("NYLTC"), and Institutional Capital LLC ("ICAP"), all indirect wholly owned subsidiaries of NYLIC, may make a discretionary company contribution for certain eligible employees. During 2007, for the 2006 Plan Year, NYLIM, NYLTC and ICAP approved a discretionary contribution of 5% of Plan compensation, which totaled \$4 million for eligible NYLIM employees, and \$231,820 for certain eligible NYLTC and ICAP employees. There were no eligible New York Life Trust Company, FSB, ("NYLTC FSB") employees since the entity was dissolved in 2007. During 2006, for the 2005 Plan Year, NYLIM, NYLTC and NYLTC FSB approved a discretionary contribution of 5% of Plan compensation, which totaled \$3 million for eligible NYLIM employees, and \$16,321 for certain eligible NYLTC and NYLTC FSB employees. NYLIC also maintains the Excess EPSI Plan for certain eligible participants, which is a nonqualified unfunded arrangement that credits amounts 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.

NYLIC also maintains the Agents' Progress-Sharing Investment Plan ("APSI") which is a qualified defined contribution plan covering substantially all contracted United States full-time agents (individuals eligible under the 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 \$100,000 based on 2006 total pay and up to 15% for agents whose compensation is below the highly compensated threshold) may be contributed to a 401K account. Participants may also roll over qualified distributions from eligible retirement plans into the APSI. Effective September 30, 2002, APSI was amended to allow additional pre-tax 401(k) "catch up" contributions for participants age 50 and over.

NYLIC annually determines the level of 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 2007 and 2006, the Company's contributions to APSI totaled \$3 million in each year. 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 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative financial instruments to manage interest rate, currency, commodity and market risk. These derivative financial instruments include foreign exchange forward contracts, interest rate swaps, commodity options, interest rate and equity options 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 netting arrangements incorporated in master agreements and collateral support agreements with counterparties 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 following table presents the notional and fair value of derivative financial instruments for the years ended December 31, 2007 and 2006 (in millions):

	December 31, 2007		December 31, 2006	
	Notional Value	Fair Value	Notional Value	Fair Value
Interest rate swaps	\$ 6,269	\$ (12)	\$ 5,915	\$ 83
Interest rate options	19,970	29	10,571	10
Currency swaps	8,582	691	6,950	370
Currency forwards	845	(12)	844	(14)
Equity options*	1,910	(2,082)	1,474	(743)
Equity swaps	38	(1)	50	(1)
Commodity options	-	-	2,938	50
Credit default swaps	1,404	(6)	999	(4)
Total	\$ 39,018	\$ (1,393)	\$ 29,741	\$ (249)

*As discussed below equity options includes non qualified hedges with a notional value of \$1,541 and \$1,157 million related to ESI for years 2007 and 2006, respectively.

The notional and fair value amounts by type of hedge designation for the years ended December 31, 2007 and 2006 is as follows (in millions):

	December 31, 2007		December 31, 2006	
	Notional Value	Fair Value	Notional Value	Fair Value
Fair value hedges	\$ 16	\$ -	\$ 16	\$ 1
Cash flow hedges	5,110	498	4,591	359
Foreign operation hedges (net investment hedges)	875	(36)	857	(62)
Non-qualifying derivatives	33,017	(1,855)	24,277	(547)
Total	\$ 39,018	\$ (1,393)	\$ 29,741	\$ (249)

The ineffective portion of fair value hedges that is included in net investment gains (losses) in the accompanying Consolidated Statement of Income is as follows (in millions):

	December 31,	
	2007	2006
Changes in the fair value of derivatives	\$ (1)	\$ 3
Changes in the fair value of the items hedged	-	(4)
Net effect of fair value hedging activities	<u>\$ (1)</u>	<u>\$ (1)</u>

During 2007 and 2006, there were no fair value hedges that discontinued hedge accounting treatment due to ineffectiveness.

For fair value hedges, all components of each derivative's gain or loss were included in the assessment of hedge ineffectiveness. There were no instances during 2007 and 2006 in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge due to hedge ineffectiveness.

Presented below is a roll forward of the components of other comprehensive income (loss) before taxes related to cash flow hedges (in millions):

	<u>2007</u>	<u>2006</u>
Other comprehensive income balance at the beginning of the year	\$ (122)	\$ 29
(Losses) gains deferred in other comprehensive income on the effective portion of cash flow hedges	130	53
Losses (gains) reclassified to net income	<u>(280)</u>	<u>(204)</u>
Other comprehensive (loss) income balance at the end of the year	<u><u>\$ (272)</u></u>	<u><u>\$ (122)</u></u>

The ineffective portion of cash flow hedges was less than \$1 million and \$0 million for the years ended December 31, 2007 and 2006, respectively. All components of each derivative's gains or losses were included in the assessment of hedge ineffectiveness. There were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transactions did not occur on the anticipated date or in the additional time period permitted by SFAS No. 149. There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments.

For cash flow hedges, the estimated amount of existing gains that are reported in accumulated other comprehensive income at December 31, 2007 related to periodic interest payments on assets and liabilities being hedged that is expected to be reclassified into earnings within the next 12 months is \$(1) million.

The amounts included in accumulated other comprehensive income from hedges of net investments in foreign operations were \$(184) million and \$(174) million at December 31, 2007 and 2006, respectively.

The Company has derivative instruments that do not qualify for hedge accounting treatment. These derivatives include interest rate and equity options, interest rate and currency swaps, foreign exchange forward contracts, commodity options, and synthetic GICs. For the years ended December 31, 2007 and 2006, the Company recognized as net investment gains (losses) in the Consolidated Statement of Income \$66 million and \$198 million, respectively, for changes in fair value related to these derivatives that do not qualify for hedge accounting (excluding ESI discussed below).

As of December 31, 2007 and 2006, there were no embedded derivatives that could not be separated from their host contracts.

In 2003 and 2001, the Company entered into agreements to minimize its downside risk on the Company's investment in ESI while still maintaining rights to share in future appreciation (SAILS indirectly through NYLIFE LLC, and SAILS II, as discussed in Note 12 - Debt). The counterparty to the agreement is CS. The agreements contain embedded derivatives and the Company has assessed that the economic characteristics of the derivatives (a series of European style put and call options) were not clearly and closely related to those of the host contract and determined that a separate instrument with the same terms would qualify as a derivative instrument. In accordance with GAAP guidance, the embedded derivatives were separated from the host contract and accounted for as stand-alone derivatives. The Company's obligation associated with these embedded derivatives is fully collateralized by its investment

in ESI, which is classified as a trading security with the change in fair value recorded in net investment gains in the accompanying Consolidated Statement of Income.

During 2007, the Company entered into a forward sale agreement (the “Overlay Hedge”) with CS for 2.8 million encumbered shares of ESI. Under the agreement, the Company may deliver up to 2.8 million shares of ESI common stock on August 22, 2011. If the company elects to settle the Shared Appreciation Income Linked Securities (“SAILS”) transaction in cash, it must also settle the Overlay Hedge in cash instead of delivering shares. This agreement modifies the risk and opportunity allocated under the SAILS contract, limiting the risk of loss by protecting \$88 million of the unrealized retained value in the SAILS transaction from potential decline in the ESI stock price. In exchange for limiting its downside risk, the Company would forfeit a portion of the potential gain from appreciation in the ESI stock price. The terms of the Overlay Hedge agreement allows the Company to protect 2.8 million shares of ESI from any decline in stock price from \$49.05 per share down to \$17.57 per share by purchasing a put option with a strike price of \$49.05 per share and writing a put option to CS with a strike price of \$17.57 per share. The Company also wrote a call option to CS with a strike price of \$70.38 per share. The aggregate number of shares deliverable under the SAILS and Overlay Hedge transactions cannot exceed 18 million shares. The aggregate number of shares deliverable under the SAILS II transaction cannot exceed 22 million.

The notional and fair values amounts of the ESI derivatives at December 31, 2007 and December 31, 2006 is presented in the table below (in millions):

	December 31, 2007							
	SAILS		SAILS II		Overlay Hedge		Total	
	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value
Puts	\$ 243	\$ 2	\$ 305	\$ -	\$ 187	\$ 12	\$ 735	\$ 14
Calls	243	(805)	366	(1,246)	197	(65)	806	(2,116)
Total:	\$ 486	\$ (803)	\$ 671	\$ (1,246)	\$ 384	\$ (53)	\$ 1,541	\$ (2,102)

	December 31, 2006							
	SAILS		SAILS II		Overlay Hedge		Total	
	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value
Puts	\$ 243	\$ 10	\$ 305	\$ 1	\$ -	\$ -	\$ 548	\$ 11
Calls	243	(316)	366	(449)	-	-	609	(765)
Total:	\$ 486	\$ (306)	\$ 671	\$ (448)	\$ -	\$ -	\$ 1,157	\$ (754)

The fair value of the liability related to these embedded derivatives are included in other liabilities on the accompanying Consolidated Balance Sheet. The change in fair value of the liabilities, reported in net investment gains of the accompanying Consolidated Statement of Income, for years ended December 31, 2007 and 2006 totaled \$1,348 million and \$240 million, respectively.

The fair value of these derivatives represents the estimated amount the Company would receive or pay to purchase similar stand-alone European put and call option contracts and was determined utilizing a Black-Scholes valuation model, which takes into account current market conditions, term to maturity and implied volatility of the ESI stock. The Black-Scholes valuation model for the embedded derivatives requires management to make estimates and assumptions regarding interest rates and volatility. Such estimates are primarily based on current market data and future expectations. Actual results could differ from those estimates. At December 31, 2007, the derivatives were calculated using an average of the three year and four year swap interest rate of 3.97% for SAILS and the Overlay Hedge, and the London Interbank Offered Rate of 4.67% for SAILS II. The implied Put and Call volatilities were both 45.20% for SAILS, and 55.80% for SAILS II. The implied Put volatilities were 45.30% and 36.80% and the Call

volatility was 33.50% for the Overlay Hedge. At December 31, 2006, the derivatives were calculated using an average of the fourth and fifth year swap interest rates of 5.09% and a one and two year swap interest rate of 5.24% for SAILS and SAILS II, respectively. The implied Put and Call volatility was 39.20% and 36.90% for SAILS, respectively and 42.10% and 40.10% for SAILS II, respectively.

NOTE 15- COMMITMENTS AND CONTINGENCIES

Litigation

The Company and/or its subsidiaries are defendants in individual and/or alleged class action suits arising from their agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, employment and/or other operations, including actions involving retail sales practices. 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.

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 \$18 million, which have been accrued in other liabilities on the accompanying Consolidated Balance Sheet.

Loaned Securities and Repurchase Agreements

The Company participates in securities lending for the purpose of enhancing income on certain securities held. As of December 31, 2007 and 2006, \$5,530 million and \$3,501 million, respectively, of the Company's fixed maturities and equity securities were on loan to others. Such assets reflect the extent of the Company's involvement in securities lending, not the Company's risk of loss. At December 31, 2007 and 2006, the Company recorded cash collateral received under these agreements of \$5,709 million and \$3,640 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 \$57 million and \$52 million at December 31, 2007 and 2006, respectively, which is not included on the accompanying Consolidated Balance Sheet.

Following the entering into of the SAILS and SAILS II agreements with CS described in Note 12 - Debt, the Company agreed to lend CS up to 18 million and 22 million shares of ESI from the shares of common stock that were pledged as collateral for each transaction. The carrying value of the 40 million shares pledged as collateral that can be sold or repledged totaled \$2,920 million and \$1,432 million at December 31, 2007 and 2006, respectively. 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 consists of US Government Securities, letters of credit or cash. As of December 31, 2007, CS had borrowed 37.08 million shares with a market value equivalent to the carrying amount of \$2,707 million. As of December 31, 2006, CS had borrowed 18.64 million shares with a market value equivalent to the carrying amount of \$1,335 million.

The Company's agreement to purchase and resell securities had average coupon rates of 3.98% and 5.26% at December 31, 2007 and 2006, respectively. At December 31, 2007, the Company had agreements to sell and repurchase securities totaling \$2 million at an average coupon rate of 4.50%. At December 31, 2006, the Company did not have any agreements to sell and repurchase securities. Under these agreements to sell and repurchase, the Company obtains the use of funds from a broker for generally one month. Collateral received is invested in short-term investments with an offsetting collateral liability. The liability reported on in the accompanying Consolidated Balance Sheet (included in other liabilities) approximates fair value.

Lease Commitments

The Company leases office space, distribution facilities, and certain office equipment under various agreements with various expiration dates. The leases contain provisions for payment of real estate taxes, building maintenance, electricity and rent escalations.

Future minimum lease payments under non-cancelable operating leases with original or remaining lease terms in excess of one year at December 31, 2007 were as follows (in millions):

	<u>Real</u>		
	<u>Property</u>	<u>Equipment</u>	<u>Total</u>
2008	130	25	155
2009	115	12	127
2010	105	5	110
2011	87	2	89
2012	77	-	77
Over 5 years	236	-	236
Total	<u>750</u>	<u>44</u>	<u>794</u>
Less future sublease rental receipts	5	-	5
Total	<u>\$ 745</u>	<u>\$ 44</u>	<u>\$ 789</u>

For the years ended December 31, 2007 and 2006 rent expense was \$148 million and \$154 million, respectively.

NOTE 16 - RELATED PARTY TRANSACTIONS

Company Managed Mutual Funds

NYLIM Holdings, through its subsidiaries, is responsible for providing investment advisory and certain related administrative services to the MainStay Funds, MainStay VP Series Fund, Inc., Eclipse Funds, Eclipse Funds, Inc., the Morgan Funds and the ICAP Funds, Inc. (collectively, the "Funds"). As a result, NYLIM Holdings, through its subsidiaries, earns investment management, accounting, administration and service fees related to the Funds, which aggregated \$380 million and \$336 million for the years ended December 31, 2007 and 2006, respectively, and are included in other income in the accompanying Consolidated Statement of Income. The receivable balance at December 31, 2007 and 2006 was \$43 million and \$37 million, respectively and is included in other assets in the accompanying Consolidated Balance Sheet.

Other Transactions

As of December 31, 2007, an executive of the Company was a director of ESI. ESI provides the majority of the prescription drug administrative services for the Company. Such arrangements are entered into on terms comparable to those that would be available to unrelated third parties.

NOTE 17- SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid were \$486 million and \$710 million for the years ended December 31, 2007 and 2006, respectively.

Interest paid was \$171 million and \$174 million for the years ended December 31, 2007 and 2006, respectively.

Non-cash transactions during the year:

Non-cash investing transactions were \$43 million and \$39 million for the years ended December 31, 2007 and 2006, respectively.