

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

DECEMBER 31, 2005 and 2004

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, 2005 and 2004, 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 to the consolidated financial statements, effective January 1, 2004, the Company adopted Statement of Position 03-01, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* and Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* Implementation Issue No. B36, *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments*.



March 15, 2006

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31,	
	2005	2004
	(in millions)	
ASSETS		
Fixed maturities		
Available for sale, at fair value	\$103,710	\$96,595
Held to maturity, at amortized cost	200	130
Trading securities, at fair value	5,936	5,880
Equity securities		
Unaffiliated, available for sale, at fair value	3,843	3,294
Affiliated	269	244
Trading securities, at fair value	459	691
Mortgage loans	11,373	10,845
Policy loans	6,660	6,446
Other long-term investments	4,822	4,585
Total investments	<u>137,272</u>	<u>128,710</u>
Cash and cash equivalents	4,841	6,152
Deferred policy acquisition costs	5,189	4,317
Investment income due and accrued	1,490	1,395
Goodwill	543	496
Other assets	3,496	4,227
Separate account assets	16,034	14,627
Total assets	<u>\$168,865</u>	<u>\$159,924</u>
LIABILITIES AND EQUITY		
Policyholders' account balances	\$64,451	\$58,568
Future policy benefits	56,659	53,207
Dividends payable to policyowners	1,227	1,187
Policy claims	654	670
Debt	2,245	2,455
Other liabilities	9,477	10,828
Separate account liabilities	16,034	14,627
Total liabilities	<u>150,747</u>	<u>141,542</u>
Minority interest	608	612
Equity		
Accumulated other comprehensive income	781	1,896
Retained earnings	16,729	15,874
Total equity	<u>17,510</u>	<u>17,770</u>
Total liabilities and equity	<u>\$168,865</u>	<u>\$159,924</u>

See accompanying notes to consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2005	2004
	(in millions)	
Revenue		
Premiums	\$8,325	\$7,965
Fees-universal life and annuity policies	778	685
Net investment income	7,668	6,880
Net investment gains	107	1,230
Other income	627	570
Total revenue	17,505	17,330
Expenses		
Interest credited to policyholders' account balances	2,479	2,294
Policyholder benefits	5,041	4,764
Increase in liabilities for future policy benefits	3,436	3,123
Operating expenses	3,861	3,473
Dividends to policyholders	1,476	1,440
Total expenses	16,293	15,094
Income from operations before income taxes, minority interest and cumulative effect of changes in accounting principles	1,212	2,236
Income tax expense	270	666
Income from operations before minority interest and cumulative effect of changes in accounting principles	942	1,570
Minority interest expense	(87)	(36)
Cumulative effect of changes in accounting principles (net of income tax expense of \$129 million)	-	(240)
Net income	\$855	\$1,294

See accompanying notes to consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Statement of Equity
Years Ended December 31, 2005 and 2004
(in millions)

	<u>Accumulated Other Comprehensive Income (Loss)</u>					<u>Total Equity</u>
	<u>Foreign Currency Translation Adjustment</u>	<u>Net Unrealized Investment Gains</u>	<u>Minimum Pension Liability Adjustment</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	
Balance, December 31, 2003	\$ (210)	\$ 1,996	\$ (12)	\$ 1,774	\$ 14,580	<u>\$ 16,354</u>
Comprehensive income:						
Net income					1,294	<u>1,294</u>
Other comprehensive income, net of tax:						
Cumulative effect of changes in accounting principles, net of tax		153		153		153
Change in foreign currency translation adjustment (net of income tax benefit of \$6 million)	9			9		9
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		(31)		(31)		(31)
Minimum pension liability adjustment (net of income tax expense of \$5 million)			(9)	(9)		<u>(9)</u>
Other comprehensive income						<u>122</u>
Total comprehensive income						<u>1,416</u>
Balance, December 31, 2004	<u>(201)</u>	<u>2,118</u>	<u>(21)</u>	<u>1,896</u>	<u>15,874</u>	<u>17,770</u>
Comprehensive income:						
Net income					855	<u>855</u>
Other comprehensive income, net of tax:						
Change in foreign currency translation adjustment (net of income tax benefit of \$29 million)	(22)			(22)		(22)
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		(1,080)		(1,080)		(1,080)
Minimum pension liability adjustment (net of income tax expense of \$7 million)			(13)	(13)		<u>(13)</u>
Other comprehensive income						<u>(1,115)</u>
Total comprehensive income						<u>(260)</u>
Balance, December 31, 2005	<u>\$ (223)</u>	<u>\$ 1,038</u>	<u>\$ (34)</u>	<u>\$ 781</u>	<u>\$ 16,729</u>	<u>\$ 17,510</u>

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,	
	2005	2004
	(in millions)	
Cash Flows from Operating Activities:		
Net income	\$ 855	\$ 1,294
Adjustments to reconcile net income to net cash (used in) provided by Operating activities:		
Depreciation and amortization	(112)	79
Net capitalization of deferred policy acquisition costs	(206)	(409)
Universal life and annuity fees	(386)	(350)
Interest credited to policyholders' account balances	2,479	2,294
Other policyholders' account balances	(5)	6
Net investment gains	(107)	(1,230)
Equity in earnings of limited partnerships	(161)	
Equity in earnings of subsidiaries	(45)	(26)
Deferred income taxes	2	301
Cumulative effect of a change in accounting principle	-	240
Other	212	95
Changes in:		
Net separate account assets	-	(11)
Investment income due and accrued	(95)	(109)
Other assets and other liabilities	(78)	211
Trading securities	75	416
Policy claims	(16)	22
Future policy benefits	3,329	3,070
Net cash (used in) provided by operating activities	5,741	5,893
Cash Flows from Investing Activities:		
Proceeds from:		
Sale of available-for-sale fixed maturities	44,900	49,710
Maturity of available-for-sale fixed maturities	2,340	1,355
Sale of equity securities	2,831	3,311
Repayment of mortgage loans	1,796	1,790
Sale of other invested assets	1,545	2,090
Cost of:		
Available-for-sale fixed maturities acquired	(55,024)	(59,135)
Held-to-maturity fixed maturities acquired	(55)	(75)
Equity securities acquired	(3,045)	(4,781)
Mortgage loans acquired	(2,366)	(2,301)
Acquisition of other invested assets	(2,367)	(2,041)
Policy loans	(214)	(102)
Capital expenditures	(40)	(32)
Proceeds from sale of subsidiary, net of expenses paid	-	114
Consolidation and deconsolidation of entities due to FIN 46R	20	-
Other	3	-
Net cash provided by (used in) investing activities	(9,676)	(10,097)
Cash Flows from Financing Activities:		
Policyholders' account balances:		
Deposits	15,574	15,223
Withdrawals	(11,072)	(9,017)
Net transfers from the separate accounts	(254)	(458)
Net contributions from limited partners	249	212
Increase/(Decrease) in loaned securities	(264)	(1,036)
Securities sold under agreements to repurchase (net)	(1,503)	802
Proceeds/(Paydowns) from debt, net	(101)	(495)
Net cash (used in) provided by financing activities	2,629	5,231
Effect of exchange rate changes on cash and cash equivalents	(5)	14
Net (decrease) increase in cash and cash equivalents	(1,311)	1,041
Cash and cash equivalents, beginning of year	6,152	5,111
Cash and cash equivalents, end of year	\$ 4,841	\$ 6,152

See accompanying notes to consolidated financial statements

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

December 31, 2005 and 2004

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, 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 that markets group life and health insurance to membership associations, long-term care insurance and is the exclusive provider of life insurance to AARP. NYLIFE LLC is a wholly owned subsidiary of NYLIC, and is a holding company for certain 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 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>2005</u>	<u>2004</u>
Consolidated GAAP net income	\$ 855	\$ 1,294
Adjustments to GAAP basis for:		
Removal of amortization of deferred acquisition costs (“DAC”)	1,133	885
Re-estimation of future policy benefits and policyholders’ account balances	186	27
Removal of deferred income taxes	2	301
Policyholder dividends	(28)	(6)
Inclusion of interest maintenance reserve (“IMR”) amortization	83	98
Removal of capitalization of DAC	(1,339)	(1,300)
Removal of subsidiaries' statutory net gain	(144)	(65)
Removal of GAAP net investment gains	(107)	(1,230)
Inclusion of dividend income from subsidiaries	20	125
Current tax and minority interest on net investment gains above	114	321
Removal of cumulative effect of changes in accounting principles, net of tax	-	240
Removal of fair value adjustment of certain liabilities due to SFAS 133 & B36	(100)	61
Other	44	34
Statutory net gain	<u>719</u>	<u>785</u>
Statutory net realized capital gains	479	199
Statutory net income *	<u>\$ 1,198</u>	<u>\$ 984</u>

* Statutory net income includes the net income of NYLIC only, and excludes the net income of its domestic insurance subsidiaries of \$223 million and \$213 million for the years ended December 31, 2005 and 2004, respectively.

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

	<u>2005</u>	<u>2004</u>
Consolidated GAAP equity	\$ 17,510	\$ 17,770
Adjustments to GAAP basis for:		
Removal of capitalization of DAC	(5,189)	(4,317)
Establishment of IMR	(458)	(480)
Policyholder dividends	(220)	(194)
Removal of unrealized gains on investments	(3,246)	(5,331)
Removal of statutory non-admitted assets	(1,563)	(1,342)
Deferred tax asset	315	955
Removal of capitalization of goodwill	(543)	(383)
Carrying value of investment in Express Scripts, Inc. (“ESI”)	1,747	728
Re-estimation of future policy benefits and policyholders’ account balances	3,258	2,965
Removal of non-vested employee benefit liabilities	383	387
Inclusion of surplus notes, net of indemnification reserve	891	1,015
Other	(32)	65
Statutory capital**	<u>\$ 12,853</u>	<u>\$ 11,838</u>

** Statutory capital includes statutory surplus and the asset valuation reserve (“AVR”) on a consolidated basis of the Company. NYLIC’s statutory surplus was \$10,549 million and \$9,708 million at December 31, 2005 and 2004, respectively. AVR for NYLIC and its domestic insurance subsidiaries was \$2,304 million and \$2,130 million at December 31, 2005 and 2004, respectively.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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. Equity securities classified as available-for-sale reflect unrealized gains and losses 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 other 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: 1) whether the decline is substantial; 2) the amount of time that the fair value has been less than cost; 3) the financial condition and near-term prospects of the issuer; and 4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

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 original maturities of three months or less at date of purchase and are carried at amortized cost, which approximates fair value.

Short-term investments that have maturities between three and twelve months at date of purchase are included in fixed maturities on the Consolidated Balance Sheet and are carried at amortized cost, which approximates fair value.

Other long-term investments consist primarily of direct investments in limited partnerships, limited liability companies, real estate and collateralized third party commercial loans. Investments in limited partnerships and limited liability companies are carried on 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.

Derivative financial instruments are accounted for at fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction, including whether it has been designated and qualifies as part of a hedging relationship, as discussed in Note 13-Derivative Financial Instruments and Risk Management.

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

Loaned Securities and Repurchase Agreements

Securities borrowed and securities loaned are treated as financing arrangements, and are recorded at the amount of cash advanced or received. With respect to securities loaned, the Company obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the fair value of securities borrowed and loaned with additional collateral obtained as necessary.

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

Deferred Policy Acquisition Costs

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 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 the above described contracts, the carrying amount of the deferred policy acquisition cost 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 deferred policy acquisition cost asset due to unrealized investment gains or losses is recorded in other comprehensive income.

Deferred acquisition costs 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.

Sales Inducements

For some deferred annuity products, the Company offers policyholders a bonus equal to a specified percentage of the policyholder's initial deposit. The Company defers these sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC.

Goodwill and Other Intangible Assets

An intangible asset with a finite life is amortized over its useful life. Goodwill, which is an intangible asset with an indefinite useful life is not required to be amortized. All indefinite lived intangible assets are required to be tested for impairment. In 2005 and 2004, the Company completed the regular annual impairment tests of goodwill. No goodwill impairment was taken in 2005 and 2004.

Other Assets and Other Liabilities

Other assets primarily consist of amounts receivable for undelivered securities, prepaid benefit costs, furniture and equipment, capitalized software and web development costs, reinsurance recoverables, net deferred tax assets, sales inducements 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, 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 8 – 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 8 – 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. 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 deferred policy acquisition 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.

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. The above-mentioned 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.

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 tax assets and liabilities are recognized for the future tax consequence of temporary differences between financial statement carrying amounts and income tax bases of assets and liabilities.

As a mutual life insurance company, for December 31, 2004 and prior years, the Company was subject to an equity base tax ("EBT"). The EBT is included in the provision for Federal income taxes estimated to be payable. An estimated Differential Earnings Rate ("DER") is used to determine the equity base tax. Adjustments to such estimates, including those related to differences between the estimated and final DER, are recorded in income tax expense in the accompanying Consolidated Statement of Income. Effective with the tax year beginning after December 31, 2004, the EBT has been repealed. No EBT was accrued for in 2004 as this tax was suspended for the 2004 tax year.

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.

Separate Accounts

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, 2005 and 2004, all separate account assets are stated at fair value. The liability at December 31, 2005 and 2004 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.

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 and policy loans are reported in Note 2 - Significant Accounting Policies and Note 4 - Investments. Fair values for investment contracts are reported in Note 8 - Policyholders’ Liabilities. Fair values for debt are included in Note 11- Debt. Fair values for repurchase agreements are included in Note 14 - 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 assurance 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 writedowns in the value of fixed income and equity securities held by the Company. Additionally, credit rating agencies, may in the future, downgrade certain issuers of fixed maturity securities held by the Company due to changing assessments of the credit quality of the issuers.

The Company regularly invests in mortgage loans, mortgage-backed 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.

Weak equity market performance may adversely affect sales of variable annuities, 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 deferred policy acquisition costs 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 assumptions. 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 deferred policy acquisition costs.

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.

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

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 at the average exchange rates for the year. 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 is due to the current year effect of the translation adjustment. Foreign currency transaction gains and losses are included in net income.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2004, the Company adopted Statement of Position 03-1, “Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts” (“SOP 03-1”). SOP 03-1 provides guidance on (i) the classification and valuation of long-duration contract liabilities; (ii) the accounting for sales inducements; and (iii) separate account presentation and valuation. In accordance with SOP 03-1’s guidance for the reporting of certain separate accounts, the Company reclassified \$4,038 million of separate account assets to general account assets and \$3,941 million of separate account liabilities to policyholders’ account balances and other liabilities at January 1, 2004. The Company currently offers enhanced crediting rates or day one bonus payments to contractholders on certain of its annuity products. Effective January 1, 2004, upon the Company’s adoption of SOP 03-1, the expense associated with offering a day one bonus continues to be deferred and amortized over the life of the related contract using the same methodology and assumptions used to amortize deferred policy acquisition costs. Enhanced crediting rates offered in certain annuity products will no longer be eligible for capitalization. Effective January 1, 2004, amortization associated with expenses previously deferred remains unchanged. The cumulative effect of the adoption of SOP 03-1, as of January 1, 2004, resulted in no impact to net income and a \$2 million increase in other comprehensive income.

Effective January 1, 2004, the Company adopted Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) Implementation Issue No. B36, “Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments”

("B36"). B36 indicates that certain reinsurance arrangements, and other similar contracts, in which funds are withheld by the ceding insurer and a return on those withheld funds is paid based on the ceding company's return on certain of its investments, generally contain an embedded derivative feature that should be separately identified and fair valued. The liabilities for these reinsurance arrangements and other similar contracts that contain an embedded derivative were adjusted to reflect the fair value of the invested assets and are included in interest credited to policyholders' account balances and other income in the accompanying Consolidated Statement of Income. To mitigate the financial impact of marking the liabilities to market, the Company transferred its fixed maturities portfolio backing certain modified coinsurance agreements and group pension participating contracts from available-for-sale into the trading portfolio. The financial impact of establishing a trading portfolio as of January 1, 2004 was a \$214 million after-tax increase in net income and a \$214 million after-tax decrease to other comprehensive income, and is not included as part of the cumulative impact, as of January 1, 2004. The cumulative effect of the adoption of B36, as of January 1, 2004, resulted in a \$240 million after-tax decrease in net income and a \$151 million after-tax increase in other comprehensive income. The total impact on net income for B36, including the establishment of a trading portfolio, was a charge of \$26 million.

The Company's total cumulative effect of the adoption of B36 and SOP 03-1, as of January 1, 2004, resulted in a \$240 million decrease in net income and a \$153 million increase in other comprehensive income, after-tax.

The Company has adopted the provisions of Financial Accounting Standards Board Interpretation No. 46(R) "FIN 46(R)". In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities" "FIN 46". FIN 46 requires a variable interest entity ("VIE") to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIEs activities or entitled to receive a majority of the entity's residual returns. On December 17, 2003, the FASB issued FIN 46(R) ("Revised Interpretation" of FIN 46), which amended certain aspects of FIN 46. For all VIEs created before December 31, 2003, the Company was required to adopt FIN 46(R) as of January 1, 2005. For VIEs created after December 31, 2003, the Company applied FIN 46(R) in 2004. At December 31, 2004, the Company held \$174 million of invested assets issued by a VIE, created after December 31, 2003, and determined it to be a significant variable interest under FIN 46(R). These investments consist of fixed maturities (asset-backed securitizations totaling \$73 million, and private placement structured notes totaling \$93 million) and other equity investments (asset-backed securitizations totaling \$8 million). This VIE did not require consolidation because management determined that the Company was not the primary beneficiary. Accordingly, this VIE is subject to ongoing review for impairment and the investment in this VIE represents the maximum exposure to losses from the Company's direct involvement with the VIE. The Company has no additional economic interest in this VIE in the form of derivatives, commitments, related guarantees, credit enhancement or similar instruments and obligations. At December 31, 2004, the Company had identified one VIE that required consolidation under existing accounting rules, however, it did not require consolidation at December 31, 2005 under FIN 46(R). Consequently, this resulted in \$365 million of assets included in the accompanying Consolidated Balance Sheet at December 31, 2004, but excluded from the Consolidated Balance Sheet at December 31, 2005.

In 2005, the Company was determined to be the primary beneficiary for: 1) a trust established for certain of the Company's synthetic guaranteed investment contracts; 2) two entities established as part of the Company's securitization program; and 3) an LLC whose primary objective is to invest in privately negotiated equity investments in companies based in, or with significant operations in, India. Consolidation of these VIEs resulted in \$507 million of assets included in the accompanying Consolidated Balance Sheet at December 31, 2005.

At December 31, 2005, the Company also held \$380 million of invested assets issued by VIEs and determined them to be significant variable interests under FIN 46(R). These investments consist of fixed maturities (asset-backed securitizations totaling \$38 million, and private placement structured notes totaling \$291 million) and other long-term investments (equity in asset-backed securitizations totaling \$25 million, limited partnership interests totaling \$9 million and investment in a synthetic fuel plant totaling \$17 million). These VIEs did not require consolidation at January 1, 2005 or throughout the year because management determined that the Company was not the primary beneficiary. Accordingly, these VIEs are subject to ongoing review for impairment and 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. There was no material impact to consolidated net income from adoption of FIN 46(R).

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. This SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company will adopt SOP 05-1 on January 1, 2007. The Company is currently assessing the impact of SOP 05-1 on the Company's consolidated statements at the date of adoption.

In November 2005 the FASB issued Staff Position Paper ("FSP") No. 115-1, which is entitled "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The provisions of FSP 115-1 are effective January 1, 2006, and it is not expected to have a material impact on the Company's Consolidated Statement of Income at the date of adoption.

NOTE 4 – INVESTMENTS

Fixed Maturities

The amortized cost and estimated fair value of fixed maturities as of December 31, 2005 and 2004 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.

	2005		2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available-for-Sale				
Due in one year or less	\$ 5,031	\$ 5,048	\$ 3,132	\$ 3,153
Due after one year through five years	15,534	15,658	14,806	15,362
Due after five years through ten years	27,065	27,400	23,744	25,134
Due after ten years	23,476	25,762	22,317	24,771
Mortgage and asset backed securities:				
U.S. government or U.S. government agency	2,765	2,735	2,425	2,460
Other mortgage-backed securities	17,584	17,712	15,839	16,416
Other asset-backed securities	9,393	9,395	9,102	9,181
Other	-	-	107	118
Total Available-for-Sale	<u>\$ 100,848</u>	<u>\$ 103,710</u>	<u>\$ 91,472</u>	<u>\$ 96,595</u>

	2005		2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held-to-Maturity				
Due in one year or less	\$ 45	\$ 46	\$ 8	\$ 8
Due after one year through five years	70	71	66	66
Due after five years through ten years	80	76	49	51
Due after ten years	<u>5</u>	<u>5</u>	<u>7</u>	<u>8</u>
Total Held-to-Maturity	<u>\$ 200</u>	<u>\$ 198</u>	<u>\$ 130</u>	<u>\$ 133</u>

At December 31, 2005 and 2004, the distribution of gross unrealized gains and losses on investments in fixed maturities was as follows (in millions):

<u>Available-for-Sale</u>	2005			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury and U.S. Government corporations and agencies	\$ 7,895	\$ 775	\$ 57	\$ 8,613
U.S. agencies, state, and municipal	1,502	150	4	1,648
Foreign governments	2,478	105	22	2,561
Corporate	61,996	2,451	666	63,781
Mortgage-backed securities	17,584	305	177	17,712
Asset-backed securities	9,393	58	56	9,395
Total Available-for-Sale	<u>\$ 100,848</u>	<u>\$ 3,844</u>	<u>\$ 982</u>	<u>\$ 103,710</u>

<u>Held-to-Maturity</u>	2005			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Foreign governments	\$ 142	\$ 1	\$ 2	\$ 141
Corporate	53	-	1	52
Other	5	-	-	5
Total Held-to-Maturity	<u>\$ 200</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 198</u>

<u>Available-for-Sale</u>	2004			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
U.S. Treasury and U.S. Government corporations and agencies	\$ 3,437	\$ 117	\$ 13	\$ 3,541
U.S. agencies, state, and municipal	4,072	591	3	4,660
Foreign governments	3,140	245	13	3,372
Corporate	55,775	3,765	233	59,307
Mortgage-backed securities	15,839	611	34	16,416
Asset-backed securities	9,102	108	29	9,181
Other	107	11	-	118
Total Available-for-Sale	<u>\$ 91,472</u>	<u>\$ 5,448</u>	<u>\$ 325</u>	<u>\$ 96,595</u>

<u>Held-to-Maturity</u>	2004			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Unrealized Losses	
Foreign governments	\$ 116	\$ 3	\$ 1	\$ 118
Corporate	9	-	-	9
Other	5	1	-	6
Total Held-to-Maturity	<u>\$ 130</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 133</u>

At December 31, 2005 and 2004, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to \$307 million and \$162 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 \$14 million and \$31 million at December 31, 2005 and 2004, respectively. These investments have been deemed other than temporarily impaired.

Equity Securities

At December 31, 2005 and 2004, 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>
2005	\$ 3,144	\$ 727	\$ 28	\$ 3,843
2004	2,616	691	13	3,294

Investments in preferred stock that have been non-income producing for the last twelve months total \$2 million and \$0 million at December 31, 2005 and 2004, respectively. These investments have been deemed other than temporarily impaired.

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, 2005 and 2004 was estimated to be \$11,821 million and \$11,739 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, 2005 and 2004, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to \$563 million and \$317 million, respectively, at fixed and floating interest rates ranging from 3.6% to 12.3%, and 2.7% to 7.2%, respectively. 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, 2005 and 2004, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	2005		2004	
	Carrying Value	% of Total	Carrying Value	% of Total
Property Type:				
Office building	\$ 3,658	32.2%	\$ 3,951	36.4%
Retail facilities	2,792	24.5%	2,535	23.4%
Industrial	2,035	17.9%	1,825	16.8%
Apartment buildings	1,450	12.7%	1,342	12.4%
Residential	1,207	10.6%	1,037	9.6%
Other	231	2.1%	155	1.4%
Total	<u>\$ 11,373</u>	<u>100.0%</u>	<u>\$ 10,845</u>	<u>100.0%</u>

	2005		2004	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic Location:				
Central	\$ 2,923	25.7%	\$ 2,958	27.3%
South Atlantic	2,830	24.9%	2,672	24.6%
Middle Atlantic	2,307	20.3%	2,344	21.6%
Pacific	2,417	21.3%	1,985	18.3%
New England	843	7.4%	816	7.5%
Other	53	0.4%	70	0.7%
Total	<u>\$ 11,373</u>	<u>100.0%</u>	<u>\$ 10,845</u>	<u>100.0%</u>

The activity in the mortgage loan specific and general reserves as of December 31, 2005 and 2004 is summarized below (in millions):

	2005	2004
Beginning balance	\$ 59	\$ 35
Additions charged to operations	10	34
Direct writedowns	(9)	-
Recoveries	(1)	(4)
Reductions due to sales	<u>(37)</u>	<u>(6)</u>
Ending balance	<u>\$ 22</u>	<u>\$ 59</u>

Other Long-term Investments

The components of other long-term investments as of December 31, 2005 and 2004 were as follows (in millions):

	<u>2005</u>	<u>2004</u>
Limited partnerships/Limited liability companies	\$ 2,765	\$ 2,430
Collateralized third party loans	1,196	1,047
Derivatives	614	855
Real estate	<u>247</u>	<u>253</u>
Total other long-term investments	<u>\$ 4,822</u>	<u>\$ 4,585</u>

Net unrealized investment gains (losses) on limited partnerships and limited liability companies aggregated \$0 million and \$(45) million for the years ended December 31, 2005 and 2004, 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, 2005 and 2004 was \$35 million and \$103 million, respectively. Depreciation expense totaled \$7 million and \$9 million for the years ended December 31, 2005 and 2004, 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 \$1,988 million and \$1,368 million for December 31, 2005 and 2004, respectively.

Investments in real estate that have been non-income producing for the last twelve months total \$2 million and \$1 million at December 31, 2005 and 2004, respectively. These investments have been deemed other than temporarily impaired.

Restricted Assets and Special Deposits

Assets of \$334 million and \$296 million at December 31, 2005 and 2004, 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 5 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2005 and 2004 were as follows (in millions):

	<u>2005</u>	<u>2004</u>
Fixed maturities	\$ 5,897	\$ 5,441
Equity securities	114	111
Mortgage loans	769	778
Real estate	43	61
Policy loans	399	416
Derivatives	41	42
Limited partnerships and other invested assets	710	236
Other	<u>105</u>	<u>108</u>
Gross investment income	8,078	7,193
Investment expenses	<u>(410)</u>	<u>(313)</u>
Net investment income	<u>\$ 7,668</u>	<u>\$ 6,880</u>

For the years ended December 31, 2005 and 2004, net investment gains (losses) were as follows (in millions):

	<u>2005</u>		<u>2004</u>	
	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Fixed maturities	\$ 507	\$ (567)	\$ 1,176	\$ (417)
Equity securities	340	(135)	591	(222)
Mortgage loans	39	(50)	13	(40)
Real estate	586	(5)	89	(1)
Other long-term investments	103	(95)	7	(16)
Derivatives instruments	145	(1,332)	265	(102)
Foreign exchange	429	(6)	3	(189)
Other	<u>229</u>	<u>(81)</u>	<u>121</u>	<u>(48)</u>
Subtotal	<u>\$ 2,378</u>	<u>\$ (2,271)</u>	<u>\$ 2,265</u>	<u>\$ (1,035)</u>
Net investment gains		<u>\$107</u>		<u>\$1,230</u>

As discussed in Note 3 - Recent Accounting Pronouncements, the Company transferred its fixed maturities portfolio backing certain modified coinsurance agreements and group pension participating contracts from available-for-sale into the trading category effective January 1, 2004. The net gain released from unrealized gains in other comprehensive income and reflected in net investment gains in the accompanying Consolidated Statement of Income at the date of transfer amounted to \$330 million, pre-tax.

The gross gains and losses on trading securities (both fixed maturities and equity securities) amounted to \$99 million and \$210 million for the year ended December 31, 2005, respectively and \$571 million and \$76 million for 2004, respectively. Included in the trading gains of \$571 million for 2004 is the effect of the transfer of securities from available-for-sale to trading as a result of the adoption of B36, which is discussed in Note 3 - Recent Accounting Pronouncements. Trading gains and losses are included in net investment gains in the accompanying Consolidated Statement of Income.

Realized gains on sales of available-for-sale fixed maturities were \$419 million and \$643 million for the years ended December 31, 2005 and 2004, respectively; and realized losses were \$336 million and \$316 million, respectively.

Related losses from other than temporary impairments in fixed maturities (included in gross investment losses on fixed maturities above) were \$71 million and \$52 million for 2005 and 2004, respectively. Related losses from other than temporary impairments in equity securities (included in gross investment losses on equity securities above) were \$28 million and \$22 million for 2005 and 2004, respectively.

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

The following table presents the Company’s 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, 2005 and 2004 (in millions):

	2005					
	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	\$ 2,274	\$ 36	\$ 578	\$ 21	\$ 2,852	\$ 57
U.S. agencies, state, and municipal	257	4	16	-	273	4
Foreign governments	859	4	1,291	20	2,150	24
Corporate	18,017	400	5,959	266	23,976	666
Mortgage-backed securities	7,470	127	1,395	52	8,865	179
Asset-backed securities	3,609	31	933	24	4,542	55
Total fixed maturities	32,486	602	10,172	383	42,658	985
Equities (Unaffiliated)						
Common stock	419	23	45	5	464	28
Preferred stock	2	-	-	-	2	-
Total equities	421	23	45	5	466	28
Total temporarily impaired securities	\$ 32,907	\$ 625	\$ 10,217	\$ 388	\$ 43,124	\$ 1,013

2004

	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	\$ 812	\$ 7	\$ 105	\$ 6	\$ 917	\$ 13
U.S. agencies, state, and municipal	289	2	29	1	318	3
Foreign governments	259	5	192	9	451	14
Corporate	7,279	99	2,823	134	10,102	233
Mortgage-backed securities	2,459	24	344	10	2,803	34
Asset-backed securities	2,523	16	206	13	2,729	29
Total fixed maturities	13,621	153	3,699	173	17,320	326
Equities (Unaffiliated)						
Common stock	193	11	2	-	195	11
Preferred stock	14	2	2	-	16	2
Total equities	207	13	4	-	211	13
Total temporarily impaired securities	\$ 13,828	\$ 166	\$ 3,703	\$ 173	\$ 17,531	\$ 339

At December 31, 2005, fixed maturities represented approximately 97% of the Company's total unrealized loss amount, which was comprised of approximately 3,400 different securities. Equity securities comprised the remaining 3%, consisting of 190 securities.

Fixed maturities that were in an unrealized loss position less than twelve months at December 31, 2005, totaled \$602 million or 61% of the Company's total fixed maturities unrealized loss, and securities in an unrealized loss position greater than twelve months totaled \$383 million or 39% of the Company's total fixed maturities unrealized loss. Of the total amount of fixed maturities unrealized losses, \$856 million or 87% 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 \$129 million or 13% of the Company's total fixed maturities unrealized losses. Unrealized losses on investment grade securities are principally related to changes in interest rates or changes in sector spreads from date of purchase. The continued rise in interest rates in 2005 has contributed to the decline in value of our fixed maturity investments as follows:

U.S. Treasury and Government Corporations and Agencies. The unrealized losses on the Company's investments in U.S. Treasury obligations and direct obligations of U.S. corporations and agencies were \$57 million or 6% of the Company's unrealized losses for fixed maturities. These were spread across over 210 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 \$666 million or 68% of the total unrealized losses for fixed maturities at December 31, 2005. The amount of unrealized losses on the Company's investment in corporate bonds is spread over more than 1,700 individual securities with varying interest rates and maturities. Corporate securities with a fair value below 95% of the security's amortized cost totaled \$226 million or 23% of the total unrealized losses for fixed maturities. These unrealized losses are principally due to changes in interest rates and were spread across all industry sectors with no one sector experiencing a disproportionate amount of losses over other sectors. The industry sectors with the largest unrealized losses on securities with a fair value below 95% of the security's amortized cost were the auto parts and supply industry (\$20 million), Canadian paper products (\$19 million), consumer products (\$14 million) and building products (\$11 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 \$179 million or 18% 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 increases in interest rates. These losses are spread across approximately 1,000 fixed and variable rate investment grade securities. The mortgage-backed securities that were priced at or greater than 95% of the securities amortized cost represented \$165 million or 92% of total unrealized losses on mortgage-backed securities. Because the decline in market value is attributable to changes in interest rates and all contractual payments remain current, 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.

Asset-Backed Securities. Unrealized losses on asset-backed securities were \$55 million or 6% percent of the total unrealized losses for fixed maturities. The unrealized losses on these investments are due to changes in interest rates. These losses are spread across approximately 490 securities. The Company measures its asset-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. When the fair value of the securities are below amortized cost and there are negative changes in estimated future cash flows, the securities are deemed other than temporarily impaired and a realized loss is recognized in net income 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. These securities are investment grade and are priced at or greater than 95% of amortized cost.

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, 2005 and 2004 are as follows (in millions):

	<u>2005</u>	<u>2004</u>
Net unrealized investment gains, beginning of the year	\$ 2,118	\$ 1,996
Cumulative effect of changes in accounting principles	_____ -	_____ 153
Changes in net unrealized investment gains (losses) attributable to investments:		
Net unrealized investment (losses) gains on investments arising during the period	(1,179)	797
Less: Reclassification adjustments for gains included in net income	_____ 284	_____ 596
Change in net unrealized investment gains, net of adjustments	(1,463)	201
Impact of net unrealized investment gains (losses) on:		
Policyholders' account balances and future policy benefits	(80)	(155)
Other assets (Sales inducements)	25	14
Deferred policy acquisition costs	_____ 438	_____ (91)
Change in net unrealized investment gains	(1,080)	(31)
Net unrealized investment gains, end of year	<u>\$ 1,038</u>	<u>\$ 2,118</u>

Cumulative effect of changes in accounting principles reported in the above table is net of income tax expense of \$82 million for the year ended December 31, 2004.

Net unrealized investment gains (losses) on investments arising during the period reported in the above table are net of income tax (benefit) expense of \$(635) million and \$429 million for the years ended December 31, 2005 and 2004, respectively.

Reclassification adjustments reported in the above table for the years ended December 31, 2005 and 2004 are net of income tax expense of \$153 million and \$321 million, respectively.

Policyholders' account balances and future policy benefits reported in the above table are net of income tax benefit of \$43 million and \$83 million for the years ended December 31, 2005 and 2004, respectively.

Other assets (sales inducements) reported in the above table are net of income tax expense of \$14 million and \$7 million for the years ended December 31, 2005 and 2004, respectively.

Deferred policy acquisition costs in the above table for the years ended December 31, 2005 and 2004 are net of income tax expense (benefit) of \$232 million and \$(48) million, respectively.

NOTE 6 - 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 \$13,457 million and \$12,271 million at December 31, 2005 and 2004, 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 \$2,577 million and \$2,356 million at December 31, 2005 and 2004, 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.

As discussed in Note 3 - Recent Accounting Pronouncements, the Company adopted SOP 03-1. Upon adoption at January 1, 2004, the Company reclassified \$4,038 million of separate account assets to general account assets and \$3,941 million of separate account liabilities to policyholders' account balances and other liabilities in the accompanying Consolidated Balance Sheet.

NOTE 7 - DEFERRED POLICY ACQUISITION COSTS AND SALES INDUCEMENTS

An analysis of deferred policy acquisition costs for the years ended December 31, 2005 and 2004 was as follows (in millions):

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 4,317	\$ 4,178
Reclassification due to adoption of SOP 03-1	-	(156)
Current year additions	1,339	1,300
Amortized during year	<u>(1,133)</u>	<u>(885)</u>
Balance at end of year before related adjustments	4,523	4,437
Adjustment for changes in unrealized investment gains (losses)	670	(139)
Cumulative translation adjustment	<u>(4)</u>	<u>19</u>
Balance at end of year	<u>\$ 5,189</u>	<u>\$ 4,317</u>

As discussed in Note 3 – Recent Accounting Pronouncements, effective January 1, 2004, the Company adopted SOP 03-1. The Company reclassified \$156 million in capitalized sales inducements from Deferred Policy Acquisition Costs to Other Assets on the accompanying Consolidated Balance Sheet.

Sales Inducements

Changes in deferred sales inducements are as follows (in millions):

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 195	\$ -
Reclassification resulting from adoption of SOP 03-1	-	156
Capitalization	30	35
Amortization	(34)	(17)
Unrealized investment gains	<u>39</u>	<u>21</u>
Balance at end of year	<u>\$ 230</u>	<u>\$ 195</u>

NOTE 8 – POLICYHOLDERS’ LIABILITIES

Policyholders’ Account Balances

Policyholders’ account balances at December 31, 2005 and 2004 were as follows (in millions):

	<u>2005</u>	<u>2004</u>
Deferred annuities	\$21,388	\$18,840
Guaranteed investment contracts	21,436	19,307
Universal life contracts	15,232	14,465
Immediate participation guarantee contracts	3,444	3,223
Dividend accumulations and continued interest accounts	1,426	1,458
Annuities certain	584	605
Other	<u>941</u>	<u>670</u>
Total	<u>\$64,451</u>	<u>\$58,568</u>

Policyholders’ account balances on the above contracts are equal to cumulative deposits plus interest credited less withdrawals and less mortality and expense charges, where applicable. This liability also includes amounts that have been assessed to compensate the insurer for services to be performed over future periods.

The Company also sells funding agreements to special purpose entities (“SPE”), which purchase the funding agreements with the proceeds of medium term notes having payment terms substantially identical to the funding agreements issued to the SPE. Guaranteed investment contracts in the above chart issued by the Company include those funding agreements issued to the SPE. At December 31, 2005 and 2004, the balance under those funding agreements issued by the Company to the SPE was \$7,521 million and \$5,280 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, 2005:

Product	Interest Rate	Withdrawal/Surrender Charges
Deferred annuities	2.20% to 7.00%	Surrender charges 0% to 10% for up to 10 years.
Guaranteed investment contracts	1.78% to 15.16%	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	3.25% to 6.51%	Various up to 19 years.
Immediate participation guarantee contracts	6.25% to 10.99%	Contractually limited or subject to fair value adjustment.
Dividend accumulations and Continued interest accounts	0.93% to 4.90%	Generally, not subject to withdrawal/surrender charges, except for certain contracts where withdrawal/surrender is limited or subject to a fair value adjustment.

The following table discloses the fair values of the Company's investment contracts at December 31, 2005 and 2004 (in millions):

	<u>2005</u>	<u>2004</u>
Deferred annuities	\$ 21,388	\$ 18,840
Guaranteed investment contracts	21,331	19,495
Immediate participation guarantee contracts	3,397	3,062
Dividend accumulations and continued interest accounts	1,426	1,458
Annuities certain	657	695
Other	<u>941</u>	<u>670</u>
Total	<u>\$ 49,140</u>	<u>\$ 44,220</u>

For deferred annuities, dividend accumulations and other deposit type contracts, account value approximates fair value. For 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, 2005 and 2004 were as follows (in millions):

	<u>2005</u>	<u>2004</u>
Life insurance	\$ 44,669	\$ 41,968
Individual annuities	7,042	6,251
Group annuities	3,196	3,354
Other contract liabilities	<u>1,752</u>	<u>1,634</u>
Total future policy benefits	<u>\$ 56,659</u>	<u>\$ 53,207</u>

Participating life insurance contracts represented 74% and 78% of total life insurance in force at December 31, 2005 and 2004, respectively. Participating life insurance contracts also represented 97% and 99% of total life insurance premiums for the years ended December 31, 2005 and 2004, respectively.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves at December 31, 2005:

Product	Mortality	Interest Rate	Estimation Method
Traditional life insurance policies	Generally rates guaranteed in calculating cash surrender values.	2.0% to 5.0%	Net level premium.
Term life insurance policies	Based upon pricing assumptions 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 payout annuities	Based upon pricing assumptions at time of policy issuance with PAD.	2.0% 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%	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, 2005 and 2004, 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 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, 2005 for GMDB's and GMAB's (\$ in millions):

	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value	\$ 3,517	\$ 839	\$ 12,758
Net amount at risk	\$ 32	\$ 2	\$ 332
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 in the accompanying Balance Sheet (in millions):

	Guaranteed Minimum Death Benefit (GMDB)	Guaranteed Minimum Accumulation Benefit (GMAB)	Totals
Balance at January 1, 2005	\$ 23	\$ 3	\$ 26
Incurred guarantee benefits	12	6	18
Paid guarantee benefits	<u>(5)</u>	<u>-</u>	<u>(5)</u>
Balance at December 31, 2005	<u>\$ 30</u>	<u>\$ 9</u>	<u>\$ 39</u>

For guaranteed minimum accumulation benefits, 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, 2005:

- Data used was 1,000 stochastically generated investment performance scenarios.
- Mean investment performance assumption ranged from 7.10% to 7.34%.
- Volatility assumption was 15.3%.
- Mortality was assumed to be a 50/50 blend of the 1994 GMDB table and the 1983 Basic 'A' table with 18 years of static projection.
- Lapse rates vary by contract type and duration and range from 1% to 21%, with an average of 6%.
- Discount rates ranged from 4.93% to 7.61 %.

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:	December 31, 2005	
	<u>GMDB</u>	<u>GMAB</u>
Separate account:		
Equity	\$ 7,403	\$ 567
Fixed income	2,306	132
Balanced	1,651	70
General account	<u>4,914</u>	<u>70</u>
Total	<u>\$ 16,274</u>	<u>\$ 839</u>

NOTE 9 - FEDERAL INCOME TAXES

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

	<u>2005</u>	<u>2004</u>
Current		
Federal	\$ 244	\$ 355
State and Local	8	4
Foreign	<u>16</u>	<u>6</u>
	<u>268</u>	<u>365</u>
Deferred		
Federal	(25)	261
Foreign	<u>27</u>	<u>40</u>
	<u>2</u>	<u>301</u>
Income tax expense	<u>\$ 270</u>	<u>\$ 666</u>

The components of the net deferred tax asset/(liability) as of December 31, 2005 and 2004 were as follows (in millions):

	<u>2005</u>	<u>2004</u>
Deferred tax assets:		
Policy reserves	\$ 2,303	\$ 2,263
Agent & employee benefits	395	355
Net operating losses	152	156
Other reserves	88	36
Investment in foreign subsidiary	2	2
Other deferred tax asset	<u>28</u>	<u>60</u>
Deferred tax assets before valuation allowance	2,968	2,872
Valuation allowance	<u>(26)</u>	<u>(18)</u>
Gross deferred tax assets	<u>2,942</u>	<u>2,854</u>
Deferred tax liabilities:		
Deferred policy acquisition costs	1,059	866
Investments	1,556	2,303
Deferred distribution costs	23	27
Other deferred tax liabilities	<u>40</u>	<u>10</u>
Gross deferred tax liabilities	<u>2,678</u>	<u>3,206</u>
Net deferred tax asset/(liability)	<u>\$ 264</u>	<u>\$ (352)</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 \$26 million and \$18 million related to foreign net operating loss carryforwards at December 31, 2005 and 2004, 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, 2005, the Company had deferred tax assets relating to net operating loss carryforwards of \$126 million (net of valuation allowance). Of the total, \$119 million (\$424 million at 28%) is related to a Mexican subsidiary's net operating losses that have expiration dates between 2006-2012, and \$7 million is related to certain other foreign subsidiaries that will expire between 2006-2010.

The Company has not provided U.S. income taxes on unremitted foreign earnings of its non-U.S. operations because such earnings are considered to be permanently reinvested in such operations. The Company has undistributed earnings of foreign subsidiaries of \$239 million and \$159 million at December 31, 2005 and 2004, 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, 2005 and 2004, the Company recorded a current income tax payable of \$129 million and \$44 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 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Statutory federal income tax rate	35.00%	35.00%
Foreign operations, net of foreign taxes	(0.76)	(0.23)
Tax exempt income	(6.60)	(2.72)
Investment credit	(3.94)	(2.01)
Other	<u>(1.42)</u>	<u>(0.25)</u>
Effective tax rate	<u>22.28%</u>	<u>29.79%</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 1998 and has begun auditing tax years 1999 through 2001. 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.

NOTE 10 – REINSURANCE

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk. The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company 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 57% of the reinsurance ceded at December 31, 2005 and December 31, 2004.

Life insurance reinsured was 30% and 33% of total life insurance in-force at December 31, 2005 and 2004, respectively.

The effects of reinsurance for the years ended December 31, 2005 and 2004 were as follows (in millions):

	<u>2005</u>	<u>2004</u>
Premiums:		
Direct	\$ 8,523	\$ 8,200
Assumed	226	209
Ceded	<u>(424)</u>	<u>(444)</u>
Net premiums	<u>\$ 8,325</u>	<u>\$ 7,965</u>
FAS 97 fee income ceded	<u>\$ 143</u>	<u>\$ 111</u>
Policyholders' benefits ceded	<u>\$ 489</u>	<u>\$ 522</u>
Increase (decrease) in ceded liabilities for future policy benefits	<u>\$ 41</u>	<u>\$ (1)</u>
Reinsurance recoverable	<u>\$ 403</u>	<u>\$ 436</u>
Reinsurance payable	<u>\$ 93</u>	<u>\$ 71</u>

NOTE 11 – DEBT

For the years ended December 31, 2005 and 2004, the fair value of debt was \$2,316 million and \$2,534 million, respectively. 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. Debt, generally carried at unpaid principal balance, consisted of the following at December 31, 2005 and 2004 (in millions):

	<u>2005</u>	<u>2004</u>
Capital Corporation's commercial paper debt issuance, various maturity dates through February 2006 and February 2005 for 2005 and 2004, respectively, (the weighted average interest rate is approximately 4.27% and 2.34% for 2005 and 2004, respectively)	\$ 498	\$ 498
Shared Appreciation Income Linked Securities, due August 22, 2011 (coupon rate of 3.3%)	211	206
Shared Appreciation Income Linked Securities II, due April 28, 2008 (implicit coupon rate of 2.27%)	276	264
7.50% Surplus Notes, due December 15, 2023	-	125
5.875% Surplus Notes, due May 15, 2033	991	990
Non-recourse debt	216	313
Other (primarily capital lease)	<u>53</u>	<u>59</u>
Total debt	<u>\$ 2,245</u>	<u>\$2,455</u>

At December 31, 2005 and 2004, the face value of commercial paper issued by New York Life Capital Corporation ("Capital Corporation"), an indirect wholly owned subsidiary of NYLIC, was approximately \$501 million and \$499 million, respectively, with an unamortized discount of \$3 million and \$1 million for 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, interest expense totaled \$16 million and \$9 million, respectively.

On August 22, 2001, the Company entered into an agreement with Credit Suisse First Boston International and Credit Suisse First Boston ("CSFB"), 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 Express Scripts, Inc ("ESI"), an investment of the Company accounted for under the equity method.

The Company may deliver up to 9 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 \$27.03 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 \$35.14 and 23% of the appreciation in excess of \$35.14 per share (price per share and number of shares have been adjusted for a stock split effective June 24, 2005). In accordance with Statement of Financial Accounting Standards No. 149 ("SFAS 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities", \$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 each of the years ended December 31, 2005 and 2004, the accretion of interest expense totaled \$5 million. The Company pays CSFB 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, 2005 and 2004, interest expense amounted to \$8 million. At December 31, 2005 and 2004, accrued interest was \$1 million for both years.

On April 28, 2003, the Company entered into another agreement with CSFB, 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 11 million shares of ESI common stock on April 28, 2008 or settle the transaction in cash instead of delivering shares. Upon entering into the transaction the Company received \$27.72 per share or \$305 million, less prepaid interest and offering costs, bringing net proceeds to \$273 million. The Company is entitled to 100% of the appreciation up to \$33.26 per share. Any appreciation in excess of \$33.26 per share will be due to CSFB upon settlement (price per share and number of shares have been adjusted for a stock split effective June 24, 2005). In accordance with SFAS 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, 2005 and 2004, the accretion of interest expense totaled \$12 million and \$11 million, respectively.

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.

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

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 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 5.875% Notes may be redeemed at the option of the Company at any time at the “make-whole” redemption price equal to the greater of 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, 2005 and 2004, interest expense totaled \$66 million and \$64 million, respectively on all of NYLIC’s surplus notes. Accrued interest at December 31, 2005 and 2004 was \$7 million and \$12 million, respectively.

At December 31, 2005, the Company was required to consolidate two asset backed investment vehicles (commonly referred to as collateralized debt obligations, or “CDO”). At December 31, 2004, the Company was required to consolidate one CDO, which did not require consolidation in 2005. For the years ended December 31, 2005 and 2004, the debt outstanding relating to the consolidated CDOs was \$216 million and \$313 million, respectively, all of which is non-recourse to the Company.

Amounts due on other debt are, \$6 million in 2006, \$6 million in 2007, \$21 million in 2008, \$7 million in 2009, \$7 million in 2010 and \$6 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 new agreement is a five-year revolving credit facility that pays an annual facility fee of 4 bps, based on the volume of short-term notes issued during the year. 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. Annual facility fees and borrowing rates could increase if New York Life’s Standard & Poor’s and Moody’s Financial Strength ratings are downgraded.

This new revolving credit facility replaced both the \$500 million, 364-day revolving credit facility, which expired on July 27, 2005, and the \$500 million, 3-year revolving credit facility which was scheduled to expire on July 30, 2006.

To date, the Company has not utilized any of these credit facilities.

NOTE 12 - 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 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 defined qualified 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. 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 are calculated by multiplying the sum of his/her Pensionable Earnings credited after 1990 by 2.75%. Prior to the 2005 termination (discussed below), NYLIC 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 was less than their Senior NYLIC income so that the total of their retirement benefit under the NYLIC Retirement Plan and the additional amount was equivalent to their Senior NYLIC income. Further, the Company has entered into a settlement agreement in *Lucich v. New York Life Insurance Company* No. 01-CIV-1747 (S.D.N.Y.) (“Lucich Settlement”). Pursuant to the settlement agreement, 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 Retirement Plan on a prospective basis. In addition, the NYLIC Excess Benefit Plan was terminated and the Company established new nonqualified, unfunded arrangements 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 contributions to the Pension Plan in 2005 and 2004 of \$145 million and \$52 million, respectively. Contributions to the Retirement Plan in 2005 and 2004 were \$95 million and \$0 million, respectively.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts issued to each plan. Each plan currently invests in two group annuity contracts: one contract is an immediate participation guarantee contract relating to the Company’s general account (“GA Contract”), and the other contract relates to 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. 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.

Defined Contribution Plans

NYLIC maintains the Employee Progress-Sharing Investment Plan ("EPSI") which is a qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees of NYLIC and certain eligible employees of subsidiaries that adopt EPSI (individuals eligible under NYLIC's Agents' Progress-Sharing Investment Plan are not eligible under EPSI). Under EPSI, participants may contribute (1) on a pre-tax basis to a 401(k) account, a percentage of base salary and eligible incentive compensation (up to 10% for employees whose total annual compensation exceeds the highly compensated threshold of \$95,000 based on 2005 total pay and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (2) to a non-tax deductible account up to 10% of base salary and eligible incentive pay. Highly compensated employees are limited to a combined 401 (k) and non-tax deductible rate of 10%. Participants may also roll over qualified distributions from eligible retirement plans into EPSI. Effective September 30, 2002, EPSI was amended to allow additional pre-tax 401(k) "catch-up" contributions for participants age 50 and over (\$4,000 for 2005 and \$3,000 for 2004).

NYLIC annually determines the level of the Company's matching contributions to EPSI. In 2005 and 2004, NYLIC made matching contributions based on a specific percentage, 100% of participants' contributions up to 3% of base salary and eligible incentive pay. For the years ended December 31, 2005 and 2004, the Company's matching contributions to EPSI totaled \$18 million, and \$17 million, respectively. EPSI also provides that New York Life Investment Management LLC ("NYLIM"), an indirect wholly owned subsidiary of NYLIC, may make a discretionary company contribution for certain eligible employees of NYLIM, and commencing with the 2002 Plan Year for certain eligible employees of New York Life Trust Company and New York Life Trust Company, FSB, both indirect wholly owned subsidiaries of NYLIC. For the 2004 Plan Year, NYLIM approved a discretionary contribution of 5% of Plan compensation, which totaled \$2.9 million for eligible NYLIM employees, and \$20,169 for certain eligible employees of New York Life Trust Company and New York Life Trust Company, FSB. For the 2005 Plan Year no discretionary contributions were made or approved. 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 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 on a pre-tax basis may be contributed to a 401(k) account. For 2005, agents whose total annual compensation exceeds the highly compensated threshold of \$95,000 based on 2005 total pay could contribute up to 7% of compensation, and agents whose total compensation is below the highly compensated threshold could contribute up to 15%. Participants may also roll over qualified distributions from eligible retirement plans into APSI. Effective September 30, 2002, APSI was amended to allow additional pre-tax 401(k) "catch up" contributions for participants age 50 and over (\$4,000 for 2005 and \$3,000 for 2004).

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 2005 and 2004, the Company's contributions to APSI totaled \$2 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.

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 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 is used to partially fund postretirement health and life benefits. For the years ended December 31, 2005 and 2004, prefunding contributions to the Retired Employee VEBA Trust totaled \$2 million and \$1 million, respectively. For the years ended December 31, 2005 and 2004, prefunding contributions to the Retired Agent VEBA Trust each totaled \$1 million.

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 \$23 million and \$28 million obligation related to the funding of these benefits at December 31, 2005 and 2004, respectively. For the years ended December 31, 2005 and 2004, the net periodic benefit cost associated with these programs was \$6 million and \$4 million, respectively.

The tables below (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. The Lucich Settlement occurred after the September 30, 2005 measurement date. If the Lucich Settlement had occurred prior to the measurement date, the impact to the funding status and pension expense would not have been material.

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2005	2004	2005	2004
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year*	\$ 3,617	\$ 3,317	\$ 1,047	\$ 1,021
Service cost	96	87	28	26
Interest cost	212	204	61	61
Contributions by plan participants	-	-	2	2
Actuarial (gains) losses	322	164	151	29
Benefits paid	(170)	(155)	(51)	(50)
Plan amendments	8	-	-	-
Impact of Medicare Subsidy (at 1/1/04)	N/A	N/A	-	(79)
Executive life insurance liability	N/A	N/A	-	37
Projected benefit obligation at end of year*	<u>\$ 4,085</u>	<u>\$ 3,617</u>	<u>\$ 1,238</u>	<u>\$ 1,047</u>
Change in plan assets:				
Fair value of plan assets at beginning of year*	\$ 2,746	\$ 2,536	\$ 395	\$ 388
Actual return on plan assets	370	301	34	31
Contributions by employer	264	64	32	24
Contributions by plan participants	-	-	2	2
Benefits paid	(170)	(155)	(51)	(50)
Fair value of plan assets at end of year*	<u>\$ 3,210</u>	<u>\$ 2,746</u>	<u>\$ 412</u>	<u>\$ 395</u>
Funded status:				
Funded status *	\$ (875)	\$ (871)	\$ (826)	\$ (652)
Unamortized prior service cost	42	40	(27)	(30)
Unrecognized net (gain)/loss	1,445	1,327	302	154
Contributions by employer (October 1 – December 31)	2	5	10	9
Intangible asset	(5)	(2)	-	-
Minimum pension liability (pre tax) included in Accumulated other comprehensive income/(loss) ¹	(53)	(32)	-	-
Prepaid (accrued) benefit cost at December 31	<u>\$ 556</u>	<u>\$ 467</u>	<u>\$ (541)</u>	<u>\$ (519)</u>
Accumulated benefit obligation for all defined pension plans at December 31*	<u>\$ 3,598</u>	<u>\$ 3,167</u>		

*For both 2005 and 2004, a September 30 measurement date was used.

¹ An additional minimum liability adjustment is required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. The additional minimum pension liability, less allowable intangible assets, net of tax benefit, is reported as a reduction to Accumulated other comprehensive income on the accompanying Consolidated Balance Sheet. At December 31, 2005 and 2004, the Company was required to establish such a pre-tax additional minimum liability adjustment to its New York Life Excess Benefit Plan in the amount of \$48 million and \$32 million, respectively, and the NYLIC Excess Benefit Plan in the amount of \$5 million and \$0 for December 31, 2005 and 2004, respectively.

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

	Pension		Other Postretirement	
	Plan Benefits		Plan Benefits	
	2005	2004	2005	2004
Components of net periodic benefit cost:				
Service cost	\$ 96	\$ 87	\$ 28	\$ 26
Interest cost	212	204	61	61
Expected return on plan assets	(236)	(243)	(31)	(34)
Amortization of (gains)/losses	69	51	1	2
Amortization of prior service cost/(credit)	7	7	(3)	(3)
Executive Life Insurance	-	-	-	37
Net periodic benefit cost	<u>\$ 148</u>	<u>\$ 106</u>	<u>\$ 56</u>	<u>\$ 89</u>

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

	Pension		Other	
	Plan Benefits		Postretirement	
	2005	2004	2005	2004
Weighted-average assumptions used to determine benefit obligations*:				
Discount rate	5.40%	6.00%	5.40%	6.00%
Rate of compensation increase:				
Employees	5.40%	5.42%	5.40%	5.42%
Agents	5.60%	6.77%	N/A	N/A

*For both 2005 and 2004, a September 30 measurement date was used.

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

	Pension		Other	
	Plan Benefits		Postretirement	
	2005	2004	2005	2004
Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31:				
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected return on plan assets	8.25%	8.50%	7.25%/7.75%**	7.50%
Rate of compensation increase:				
Employees	5.42%	5.42%	5.42%	5.42%
Agents	6.77%	6.77%	N/A	N/A

**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 for the Company's pension and other post retirement plans are selected by reference to the Moody's Corporate Aa rate, which has a similar duration to the duration of the benefit obligations of the Company's plans.

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 2005, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 9.00% for all participants. The annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 13.00% for all participants. For the 2005 measurements, the rate was assumed to decline gradually to 5.00% by 2010 for medical benefits and to 5.00% by 2014 for prescription drug benefits and remain at that level thereafter. For dental plans, the annual rate of increase in the per capita cost of covered health care benefits is assumed to be 5% for all participants and remain at that level thereafter.

In 2004, the annual rate of increase in the per capita cost of covered health care medical and prescription drug benefits was assumed to be 8.00% for those under age 65 and 10.00% for those age 65 and older. For the 2004 measurements, the rate was assumed to decrease gradually to 5.00% by 2008 for those under age 65 and by 2010 for those age 65 and older 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):

	2005 One Percent Increase	2005 One Percent Decrease
	<hr/>	<hr/>
Effect on total of service and interest cost components	\$12	\$10
Effect on accumulated postretirement benefit obligation	\$130	\$106

The weighted-average asset allocation for the agent and employee defined benefit pension plans at September 30, 2005 and 2004, and target allocations by asset category were as follows:

Asset Category	Target Allocation Percentage	Percentage of Plan Assets	
	2005 and 2004	2005	2004
Fixed income	40%	45%	45%
Equity securities	60%	55%	55%
Total	100%	100%	100%

Equity securities include common stock in the amount of \$1,779 million and \$1,520 million at September 30, 2005 and 2004, respectively.

The Investment Committees of the Agent and Employee Defined Benefit Pension Plans have established a broad investment strategy targeting an asset allocation of 60% equity securities and 40% fixed income. Diversifying each asset class by style and type further enhances this allocation. In developing this asset allocation strategy, the Committees took into account, among other factors, the information provided to it by the plans' actuary, information relating to the historical investment returns of each asset class 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 each of the sub portfolios to insure the assets are meeting each plan's objectives.

The Company's weighted-average asset allocation for the other postretirement benefit plans at September 30, 2005 and 2004, and target allocations by asset category under the VEBA Trusts were as follows:

Asset Category	Target Allocation Percentage		Percentage of VEBA Trust Assets			
	2005 and 2004		2005		2004	
	Health	Life	Health	Life	Health	Life
Fixed income securities	30%	30%	43%	28%	48%	30%
Equity securities	70%	70%	57%	72%	52%	70%
Total	100%	100%	100%	100%	100%	100%

Equity securities include common stock in the amount of \$245 million (61% of total VEBA Trust Life and Health assets) and \$219 million (57% of total VEBA Trust assets) at September 30, 2005 and 2004, respectively.

Cash Flows

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

Estimated Future Benefit Payments:

	Pension Plan Benefits	Other Post Retirement Plan Benefits	Estimated Federal Subsidy
2006	\$ 181	\$ 60	\$ (4)
2007	189	64	(5)
2008	199	67	(5)
2009	209	72	(6)
2010	220	75	(6)
Thereafter	1,284	407	(40)
Total	\$ 2,282	\$ 745	\$ (66)

The Company expects to contribute \$228 million to its qualified and non-qualified agent and employee defined benefit pension plans in 2006. The Company expects to contribute \$37 million to its other postretirement benefit plans in 2006.

Other

The Company's accumulated postretirement benefit obligation (APBO) and net periodic benefit costs include the effect of the federal subsidy provided by the Medicare Prescription Drug Improvement and Modernization Act of 2003. The APBO and net periodic benefit costs have decreased by approximately \$79 million and \$5 million for the year ended December 31, 2004.

NOTE 13 - 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, equity swaps, interest rate swaps, commodity options, interest rate and equity options, currency swaps, and credit default swaps. The Company does not engage in derivative financial instrument transactions for speculative purposes.

The Company deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. The Company has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties. The Company uses master netting agreements and 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.

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge. 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 measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy.

Fair Value Hedges

For fair value hedges, the Company generally uses a qualitative assessment to measure hedge effectiveness, which matches the terms of the derivative with the underlying hedged item. For fair value hedges of equity investments, the Company uses regression analysis, which measures effectiveness to the equity exposure being hedged. For cash flow hedges of interest rate risk, the Company uses either qualitative assessment, 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. 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 dedesignated 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.

The Company designates and accounts for the following as fair value hedges when they have met the requirements of SFAS 149: (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, in which derivatives hedge the fair value of assets, changes in the fair value of derivatives are reflected in net investment gains (losses), together with changes in the fair value of the related hedged item. The net amount, representing hedge ineffectiveness, is reflected in current earnings. The Company's fair value hedges are primarily hedges of available-for-sale securities and equity securities. The notional value of fair value hedges was \$284 million and \$313 million at December 31, 2005 and 2004, respectively.

All components of each derivative's gain or loss were included in the assessment of hedge ineffectiveness. There were no instances during 2005 and 2004 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.

Cash Flow Hedges

The Company designates and accounts for the following as cash flow hedges, when they have met the requirements of SFAS 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 the years ended December 31, 2005 and 2004, there were no net investment gains (losses) related to the ineffective portion of cash flow hedges. All components of each derivative's gains or loss 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 149. There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments.

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 earnings 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 and losses. 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. The notional value of cash flow hedges was \$3,691 million and \$2,832 million at December 31, 2005 and 2004, respectively.

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

	<u>2005</u>	<u>2004</u>
Other comprehensive income balance at the beginning of the year	\$49	\$33
(Losses) gains deferred in other comprehensive income on the effective portion of cash flow hedges	(252)	199
Losses (gains) reclassified to net income	232	(183)
Other comprehensive income balance at the end of the year	<u>\$29</u>	<u>\$49</u>

Hedge accounting is discontinued immediately when it is determined that the derivative no longer qualifies as an effective fair value hedge. The derivative will continue to be carried on the balance sheet at its fair value, but the changes in the fair value of the hedged asset or liability will no longer offset the changes in the fair value of the derivative. During 2005 and 2004, there were no fair value hedges that were discontinued for hedge accounting treatment due to ineffectiveness.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, 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 (losses). 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 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 (losses).

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 amounts included in other comprehensive income from these hedges were \$(83) million and \$(18) million at December 31, 2005 and 2004, respectively.

The estimated amount of existing gains and losses that are reported in accumulated other comprehensive income at December 31, 2005 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 \$3 million.

The Company has derivative instruments that do not qualify for hedge accounting treatment. These derivatives include interest and equity rate options, equity swaps, credit default swaps, various interest rate and currency swaps, foreign exchange forward contracts, commodity options, and synthetic GICs. Derivatives that do not qualify for hedge accounting are carried at fair value with changes in value included in net investment gains (losses). The notional value of derivatives that do not qualify for hedge accounting treatment (excluding ESI discussed below) was \$15,267 million and \$8,189 million at December 31, 2005 and 2004, respectively. For the

years ended December 31, 2005 and 2004, the Company recognized as net investment gains (losses) in the consolidated statement of income changes in fair value of \$(161) million and \$120 million, respectively, related to derivatives that do not qualify for hedge accounting.

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. As of December 31, 2005 and 2004, there were no such 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 11 - Debt). The counterparty to the agreement is CSFB. 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 SFAS No. 149, 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. However, since the Company's investment in ESI is valued using the equity method of accounting and these embedded derivatives are valued at fair value, the Company is precluded from using hedge accounting. This creates accounting volatility in both the consolidated balance sheet and income statement because the change in the actual fair value of the underlying investment in ESI shares is not recognized through net income or equity. For the years ended December 31, 2005 and 2004, the change in fair value of the embedded derivatives resulted in the Company recording an after-tax accounting loss of \$512 million and \$39 million, respectively, which is included in net investment gains on the accompanying Consolidated Statement of Income. At December 31, 2005 and 2004, the total liability related to these embedded derivatives totaled \$994 million and \$206 million, respectively, and are included in other liabilities on the accompanying Consolidated Balance Sheet. While the accounting for this transaction resulted in an accounting loss in earnings at December 31, 2005 and 2004, the derivative performed as expected on an economic basis.

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, 2005, the derivatives were calculated using an average of the five and six year swap interest rates of 4.88% and a two-year swap interest rate of 4.85% for SAILS and SAILS II, respectively. The implied Put and Call volatility was 37.00% and 35.00% for SAILS, respectively and 41.00% and 40.00% for SAILS II, respectively. At December 31, 2004, the derivatives were calculated using an average of a six and seven-year swap interest rates of 4.24% and a three year swap interest rate of 3.66% for SAILS and SAILS II, respectively. The implied Put and Call volatility was 32.76% and 30.50% for SAILS, respectively, and 32.76% and 31.25% for SAILS II, respectively.

NOTE 14- 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 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 is not aware of, nor has it received notification of any significant insolvency by insurance companies.

Loaned Securities and Repurchase Agreements

The Company participates in a securities lending program for the purpose of enhancing income on securities held. As of December 31, 2005 and 2004, \$3,172 million and \$3,274 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, 2005 and 2004, the Company recorded cash collateral received under these agreements of \$3,186 million and \$3,293 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 \$70 million and \$47 million at December 31, 2005 and 2004, respectively, which is not included on the accompanying Consolidated Balance Sheet.

Following the entering into of the SAILS and SAILS II agreements with CSFB described in Note 11 - Debt, the Company agreed to lend CSFB up to 9 million and 11 million shares of ESI common stock pledged as collateral for each respective deal. As of December 31, 2005 and 2004, CSFB had borrowed 18.64 million shares and 16.86 million shares, respectively, with a market value of \$1,562 million and \$645 million, respectively. These transactions are generally collateralized with the right of offset against the Company's liabilities to CSFB. At December 31, 2005 and 2004, the carrying amount of the borrowed shares was \$184 million and \$150 million, respectively (number of shares have been adjusted for a stock split effective June 24, 2005).

The Company enters into agreements to sell and repurchase securities for the purpose of enhancing income on securities held. Under these agreements, the Company obtains the use of funds from a broker for generally one month. Collateral received is invested in short-term investments and the offsetting collateral liability reported approximates fair value. The liability reported on the accompanying Consolidated Balance Sheet (included in other liabilities) approximates fair value. At December 31, 2005 and 2004, the Company had repurchase agreements totaling \$244 million at an average coupon rate of 5.35% and \$1,733 million at an average coupon rate of 5.11%, respectively. The investments acquired with the funds received from the securities sold are primarily included in cash and cash equivalents. At December 31, 2005 and 2004, the Company had no reverse repurchase agreements outstanding.

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, 2005 were as follows (in millions):

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2006	\$ 98	\$ 47	\$ 145
2007	90	25	115
2008	81	16	97
2009	70	10	80
2010	63	10	73
Over 5 years	<u>141</u>	<u>51</u>	<u>192</u>
Total	543	159	702
Less future sublease rental receipts	<u>4</u>	<u>-</u>	<u>4</u>
Total	<u>\$ 539</u>	<u>\$ 159</u>	<u>\$ 698</u>

Rent expense for the years ended December 31, 2005 and 2004 amounted to \$145 million for both years.

NOTE 15 - 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 and Eclipse Funds, Inc. (formerly The MainStay Institutional Funds, Inc.) (collectively, the "NYLIM Funds"). McMorgan & Company LLC, a wholly owned subsidiary of NYLIM Holdings, is the investment advisor to the McMorgan Funds (collectively with the NYLIM Funds, "the Funds"). As a result, NYLIM Holdings, through its subsidiaries, earns investment management, accounting, administration and service fees related to the Funds, which aggregated \$326 million and \$306 million for the years ended December 31, 2005 and 2004, respectively, and are included in other income in the accompanying Consolidated Statement of Income. The receivable balance at December 31, 2005 and 2004 was \$35 million and \$29 million, respectively and is included in other assets in the accompanying Consolidated Balance Sheet.

Other Transactions

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

NOTE 16- SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid were \$185 million and \$249 million for the years ended December 31, 2005 and 2004, respectively.

Interest paid was \$156 million and \$150 million for the years ended December 31, 2005 and 2004, respectively.

Non-cash transactions during the year:

Non-cash investing transactions were \$51 million and \$37 million for the years ended December 31, 2005 and 2004, respectively.