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

DECEMBER 31, 2006 and 2005

PRICEWATERHOUSECOOPERS

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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 flows present fairly, in all material respects, the financial position of New York Life Insurance Company and its subsidiaries (the "Company") at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 3 of the consolidated financial statements, the Company changed its method of accounting for defined benefit pension and other postretirement plans on December 31, 2006.

PricewaterhouseCoopers LLP

March 21, 2007

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31, 2006	December 31, 2005
	(in millions)	
ASSETS		
Fixed maturities (includes securities pledged as collateral that can be sold or repledged of $3,230 in 2006 and $2,862 in 2005)		
Available for sale, at fair value	$109,768	$103,710
Held to maturity, at amortized cost	294	200
Trading securities, at fair value	5,795	5,936
Equity securities (includes securities pledged as collateral that can be sold or repledged of $1,703 in 2006 and $527 in 2005)		
Unaffiliated, available for sale, at fair value	3,827	3,843
Affiliated	55	269
Trading securities, at fair value	2,057	459
Mortgage loans	12,462	11,373
Policy loans	7,049	6,660
Other long-term investments	6,061	4,822
Total investments	147,368	137,272
Cash and cash equivalents	4,425	4,841
Deferred policy acquisition costs	6,113	5,189
Investment income due and accrued	1,647	1,490
Goodwill	556	543
Other assets	3,210	3,532
Separate account assets	19,024	16,034
Total assets	$182,343	$168,901
LIABILITIES AND EQUITY		
Policyholders' account balances	$69,170	$64,451
Future policy benefits	60,190	56,659
Dividends payable to policyowners	1,280	1,227
Policy claims	759	654
Debt	2,506	2,245
Collateral received on securities lending	3,640	3,194
Other liabilities	6,385	6,319
Separate account liabilities	19,024	16,034
Total liabilities	162,954	150,783
Minority interest	693	608
Equity		
Accumulated other comprehensive (loss) income	(331)	781
Retained earnings	19,027	16,729
Total equity	18,696	17,510
Total liabilities and equity	$182,343	$168,901

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

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2006	**2005**
	(in millions)	
Revenue		
Premiums	$9,100	$8,325
Fees-universal life and annuity policies	860	788
Net investment income	8,232	7,668
Net investment gains	2,122	107
Other income	666	582
Total revenue	20,980	17,470
Expenses		
Interest credited to policyholders' account balances	2,875	2,479
Policyholder benefits	5,356	5,051
Increase in liabilities for future policy benefits	3,769	3,436
Operating expenses	3,894	3,816
Dividends to policyholders	1,565	1,476
Total expenses	17,459	16,258
Income from operations before income taxes, and minority interest expense	3,521	1,212
Income tax expense	1,066	270
Income from operations before minority interest expense	2,455	942
Minority interest expense	(157)	(87)
Net income	$2,298	$855

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

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EQUITY
Years Ended December 31, 2006 and 2005
(in millions)

	Accumulated Other Comprehensive Income (Loss)				
	Foreign Currency Translation Adjustment	**Net Unrealized Investment Gains (Losses)**	**Defined Benefit Plans Adjustment**	**Retained Earnings**	**Total Equity**
Balance, December 31, 2004	**$ (201)**	**$ 2,118**	**$ (21)**	**$ 15,874**	**$ 17,770**
Comprehensive income:					
Net income				855	855
Other comprehensive income (loss), net of tax:					
Change in foreign currency translation adjustment (net of income tax benefit of $29 million)	(22)				(22)
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		(1,080)			(1,080)
Minimum pension liability adjustment (net of income tax benefit of $7 million)			(13)		(13)
Other comprehensive (loss), net of tax					(1,115)
Total comprehensive (loss), net of tax					(260)
Balance, December 31, 2005	**(223)**	**1,038**	**(34)**	**16,729**	**17,510**
Comprehensive income:					
Net income				2,298	2,298
Other comprehensive income (loss), net of tax:					
Change in foreign currency translation adjustment (net of income tax benefit of $21 million)	(45)				(45)
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		(274)			(274)
Minimum pension liability adjustment (net of income tax expense of $6 million)			12		12
Other comprehensive (loss), net of tax					(307)
Total comprehensive income, net of tax					1,991
Adoption of SFAS 158 (net of income tax benefit of $497 million)			(805)		(805)
Balance, December 31, 2006	**$ (268)**	**$ 764**	**$ (827)**	**$ 19,027**	**$ 18,696**

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

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

	Year Ended December 31, 2006	2005
	(in millions)	
Cash Flows from Operating Activities:		
Net income	$ 2,298	$ 855
Adjustments to reconcile net income to net cash (used in) provided by Operating activities:		
Depreciation and amortization	(5)	(112)
Net capitalization of deferred policy acquisition costs	(562)	(206)
Universal life and annuity fees	(422)	(386)
Interest credited to policyholders' account balances	2,875	2,479
Net investment gains	(2,122)	(107)
Equity in earnings of limited partnerships	14	(149)
Equity in earnings of unconsolidated subsidiaries	(13)	(45)
Deferred income taxes	445	2
Net change in unearned revenue liability	49	16
Minority interest expense	157	87
Other	1	46
Changes in:		
Investment income due and accrued	(157)	(95)
Other assets and other liabilities	266	(123)
Trading securities	160	75
Policy claims	105	(16)
Future policy benefits	3,667	3,329
Net cash (used in) provided by operating activities	**6,756**	**5,650**
Cash Flows from Investing Activities:		
Proceeds from:		
Sale of available-for-sale fixed maturities	31,195	44,900
Maturity of available-for-sale fixed maturities	3,365	2,322
Maturity of held to maturity fixed maturities	5	18
Sale of equity securities	2,732	2,831
Repayment of mortgage loans	1,895	1,796
Sale of other invested assets	696	1,484
Cost of:		
Available-for-sale fixed maturities acquired	(41,639)	(55,024)
Held-to-maturity fixed maturities acquired	(228)	(55)
Equity securities acquired	(2,318)	(3,045)
Mortgage loans acquired	(2,809)	(2,366)
Acquisition of other invested assets	(1,261)	(2,236)
Policy loans	(389)	(214)
Capital expenditures	(146)	(40)
Purchase of subsidiaries, net of cash acquired	(190)	0
Consolidation and deconsolidation of entities due to FIN 46R	(1)	20
Other	14	3
Net cash provided by (used in) investing activities	**(9,079)**	**(9,606)**
Cash Flows from Financing Activities:		
Policyholders' account balances:		
Deposits	16,004	15,558
Withdrawals	(14,080)	(11,072)
Net transfers to the separate accounts	(371)	(254)
Net (distributions to) contributions from minority interests	(56)	241
Change in book and bank over drafts	(10)	45
Increase/(Decrease) in loaned securities	441	(264)
Securities sold under agreements to repurchase (net)	(243)	(1,503)
Proceeds/(Paydowns) from debt, net	261	(101)
Net cash (used in) provided by financing activities	**1,946**	**2,650**
Effect of exchange rate changes on cash and cash equivalents	(39)	(5)
Net (decrease) increase in cash and cash equivalents	(416)	(1,311)
Cash and cash equivalents, beginning of year	4,841	6,152
Cash and cash equivalents, end of year	**$ 4,425**	**$ 4,841**

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

NOTE 1 - NATURE OF OPERATIONS

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

	2006	2005
Consolidated GAAP net income	$ 2,298	$ 855
Adjustments to GAAP basis for:		
Removal of amortization of deferred acquisition costs ("DAC")	926	1,133
Re-estimation of future policy benefits and policyholders' account balances	95	186
Removal of deferred income taxes	445	2
Policyholder dividends	(8)	(28)
Inclusion of interest maintenance reserve ("IMR") amortization	48	83
Removal of capitalization of DAC	(1,488)	(1,339)
Removal of subsidiaries' statutory net gain	(174)	(144)
Removal of GAAP net investment gains	(2,122)	(107)
Inclusion of dividend income from subsidiaries	20	20
Current tax and minority interest on net investment gains reflected above	413	114
Removal of fair value adjustment of certain liabilities	(117)	(100)
Other	158	44
Statutory gain from operations	**494**	**719**
Statutory net realized capital gains	300	479
Statutory net income *	**$ 794**	**$ 1,198**

* Statutory net income includes the net income of NYLIC only, and excludes the net income of its domestic insurance subsidiaries of $251 million and $223 million for the years ended December 31, 2006 and 2005, respectively.

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

	2006	2005
Consolidated GAAP equity	$ 18,696	$ 17,510
Adjustments to GAAP basis for:		
Removal of DAC	(6,113)	(5,189)
Establishment of IMR	(351)	(458)
Policyholder dividends	(227)	(220)
Removal of unrealized gains on investments	(1,700)	(3,246)
Removal of statutory non-admitted assets	(1,426)	(1,563)
Deferred tax asset	163	315
Removal of goodwill	(556)	(543)
Investment in Express Scripts, Inc. ("ESI") and related liabilities	(19)	1,747
Re-estimation of future policy benefits and policyholders' account balances	2,738	3,258
Removal of non-vested employee benefit liabilities	338	383
Inclusion of surplus notes, net of indemnification reserve	902	891
Removal of the impact of recognizing previously unrecognized losses and prior year service costs associated with pension and post retirement benefits	1,302	-
Other	112	(32)
Statutory capital**	**$ 13,859**	**$ 12,853**

** Statutory capital includes statutory surplus and the asset valuation reserve ("AVR") on a consolidated basis of the Company. NYLIC's statutory surplus was $11,300 million and $10,549 million at December 31, 2006 and 2005, respectively. AVR for NYLIC was $2,087 million and $1,877 million at December 31, 2006 and 2005, respectively. AVR for NYLIC's domestic insurance subsidiaries was $472 million and $427 million at December 31, 2006 and 2005, respectively.

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NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Investments

Fixed maturity investments, which the Company has both the ability and the intent to hold to maturity, are stated at amortized cost and classified as held-to-maturity. Investments classified as available-for-sale or trading are reported at fair value. For publicly traded fixed maturities, estimated fair value is determined using quoted market prices. For fixed maturities without a readily ascertainable fair value, the Company has determined an estimated fair value using a discounted cash flow approach, broker-dealer quotations or management's pricing model. Unrealized gains and losses on available-for-sale securities are reported in other comprehensive income, net of deferred taxes and related adjustments. Unrealized gains and losses from investments classified as trading fixed maturities are reflected in net investment gains in the accompanying Consolidated Statement of Income.

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

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

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

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

Mortgage loans on real estate are carried at unpaid principal balances, net of discounts/premiums and valuation allowances, and are secured. Specific valuation allowances are established for the excess carrying value of the mortgage loan over its estimated fair value, when it is probable that, based on current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Specific valuation allowances are based upon the fair value of the collateral or present value of expected future cash flows discounted at the loan's original effective interest rate. The Company also has a general valuation allowance for estimated future credit losses on currently performing mortgages. The general allowance is based on the Company's historical loss experience for the mortgage loan portfolio.

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

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

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

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

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 14-Derivative Financial Instruments and Risk Management.

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

Variable Interest Entities ("VIEs")

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

Loaned Securities and Repurchase Agreements

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

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

Deferred Policy Acquisition Costs ("DAC")

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

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

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

Sales Inducements

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

Goodwill and Other Intangible Assets

Goodwill and other intangibles with an indefinite useful life are not required to be amortized. All indefinite lived intangible assets are required to be tested for impairment at least annually. An intangible asset with a finite life is amortized over its useful life. Intangibles with a finite useful life are tested for impairment when facts and circumstances indicate that its carrying amount may not be recoverable. In 2006 and 2005, the Company completed the regular annual impairment tests of goodwill. No goodwill impairment was taken in 2006 and 2005.

Other Assets and Other Liabilities

Other assets primarily consist of amounts receivable for undelivered securities, furniture and equipment, capitalized software and web development costs, reinsurance recoverables, net deferred tax assets, sales inducements 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 9 – Policyholders' Liabilities) and the deferral and subsequent amortization of policy acquisition costs.

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

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

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

Fee Income

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

Policyholders' Dividends

The amount of dividends to be paid to NYLIC participating policyholders is determined annually by NYLIC's Board of Directors. The aggregate amount of policyholders' dividends is based on NYLIC's statutory results and past experience, including investment income, net realized investment gains and losses over a number of years, mortality experience, and other factors. NYLIC accrues dividends to policyholders when they are due to the policyholder.

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.

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.

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.

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, 2006 and 2005, all separate account assets are stated at fair value. The liability at December 31, 2006 and 2005 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 5 - Investments. Fair values for investment contracts are reported in Note 9 - Policyholders' Liabilities. Fair values for debt are included in Note 12- Debt. Fair values for derivatives are included in Note 14 – Derivative Financial Instruments and Risk Management. Fair values for repurchase agreements are included in Note 15 - Commitments and Contingencies.

Business Risks and Uncertainties

The Company's investment portfolio consists principally of fixed income securities as well as mortgage loans, policy loans, limited partnerships, preferred and common stocks and equity real estate. The fair value of the Company's investments varies depending on economic and market conditions and the interest rate environment. For example, if interest rates rise, the securities in the Company's fixed-income portfolio generally will decrease in value. If interest rates decline, the securities in the fixed-income portfolio generally will increase in value. For various reasons, the Company may, from time to time, be required to sell certain investments at a price and a time when their fair value is less than their book value.

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

Changes in interest rates can have significant effects on the Company's profitability. Under certain circumstances of interest rate volatility, the Company is exposed to disintermediation risk and reduction in net interest spread or profit margins. The fair value of the Company's invested assets fluctuates depending on market and other general economic conditions and the interest rate environment. In addition, mortgage prepayments, life insurance and annuity surrenders and bond calls are affected by interest rate fluctuations. Although management of the Company employs a number of asset/liability management strategies to minimize the effects of interest rate volatility, no guarantee can be given that it will be successful in managing the effects of such volatility and that such volatility will not have a material adverse impact on the Company's business, financial condition and results of operation.

Credit defaults and impairments may result in write-downs in the value of fixed income and equity securities held by the Company. Additionally, credit rating agencies, may, in the future, downgrade certain issuers 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 products, mutual funds or investment management products, cause potential purchasers of the Company's products to refrain from new or additional investments, and may cause current investors to withdraw from the market or reduce their rates of ongoing investment.

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

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

The development of policy reserves and DAC for the Company's products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense and investment experience. Such estimates are primarily based on historical experience and future expectations of mortality, morbidity, expense, persistency and investment experience. Actual results could differ from those estimates. Management monitors actual experience and, where circumstances warrant, revises its assumptions and the related estimates for policy reserves and DAC.

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

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

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 includes the current year effect of the translation adjustment. Foreign currency transaction gains and losses are included in net income.

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and SFAS No. 132(R)" ("SFAS 158"). This statement requires an employer to prospectively recognize the overfunded or underfunded status of its defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income, and to make additional disclosures. This standard is effective for fiscal years ending after June 15, 2007 for non-public companies, with early adoption permitted. The Company decided to adopt the recognition and disclosure provisions of SFAS 158 as of December 31, 2006. Accordingly, the adoption of SFAS 158 resulted in a reduction in accumulated other comprehensive income in the accompanying Consolidated Balance Sheet of approximately $805 million, net of income taxes.

SFAS No. 158 also requires an employer to measure the funded status of its plans as of its fiscal year-end. Previously, employers were permitted to measure the funded status of their plans within three months of its fiscal year-end. This requirement is effective for fiscal years ending after December 15, 2008, with early adoption permitted. The Company will adopt the measurement date provision of SFAS 158, as of January 1, 2007. The Company does not expect this change to have a material impact on the Company's consolidated financial statements.

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 Company adopted this guidance effective January 1, 2006, and it did not have a material effect on the Company's Consolidated Statement of Income.

In June 2005, the Emerging Issues Task Force ("EITF") of the FASB reached a consensus on Issue No. 04-5, "Investor's Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights." This Issue first presumes that general partners in a limited partnership control that partnership and should therefore consolidate that partnership, and then provides that the general partners may overcome the presumption of control if the limited partners have: (i) the substantive ability to dissolve or liquidate the limited partnership, or otherwise to remove the general partners without cause or (ii) the ability to participate effectively in significant decisions that would be expected to be made in the ordinary course of the limited partnership's business. This guidance became effective for new or amended arrangements after June 29, 2005, and became effective January 1, 2006 for all arrangements existing as of June 29, 2005 that remain unmodified. The Company's adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes" an interpretation of FASB Statement No. 109. This Interpretation prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that it has taken or expects to take on a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN No. 48 on January 1, 2007. The Company is currently assessing the impact of FIN No. 48 on the Company's consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments – an amendment of FASB Statements No. 133 and 140." This statement provides an irrevocable election to measure at fair value an entire hybrid financial instrument that contains an embedded derivative requiring bifurcation, on an instrument-by-instrument basis, rather than measuring only the embedded derivative on a fair value basis. This statement also removes an exception from the requirement to bifurcate an embedded derivative feature from a beneficial interest in securitized financial assets. The Company has used this exception for investments made in securitized financial assets in the normal course of operations, and thus has not previously had to consider whether such investments contain an embedded derivative. The new requirement to identify embedded derivatives in beneficial interests is required to be applied on a prospective basis only to beneficial interests acquired, issued, or subject to certain remeasurement conditions after the adoption date of the new guidance. The Company plans to adopt this guidance effective January 1, 2007. The Company is in the process of determining whether there are any hybrid instruments for which the Company will elect the fair value option.

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 financial statements.

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

In February 2007, the FASB issued SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FAS 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A company should report unrealized gains and losses on items for which the fair value option has been elected in earnings. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company plans to adopt this guidance effective January 1, 2008. The Company is in the process of evaluating the impacts of this statement.

NOTE 4 – ACQUISITION

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

Goodwill	$ 119
Intangibles	111
Other net assets	10
Deferred tax liability	(38)
Total purchase price	$ 202

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

NOTE 5 – INVESTMENTS

Fixed Maturities

The amortized cost and estimated fair value of fixed maturities as of December 31, 2006 and 2005 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.

	2006		2005	
Available-for-Sale	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 3,765	$ 3,768	$ 5,031	$ 5,048
Due after one year through five years	16,940	17,037	15,534	15,658
Due after five years through ten years	28,861	28,832	27,065	27,400
Due after ten years	26,977	28,494	23,476	25,762
Mortgage and asset backed securities:				
U.S. government or U.S. government agency	2,500	2,472	2,765	2,735
Other mortgage-backed securities	18,944	19,013	17,584	17,712
Other asset-backed securities	9,890	9,879	9,107	9,095
Redeemable preferred securities	271	273	286	300
Total Available-for-Sale	$ 108,148	$ 109,768	$ 100,848	$ 103,710

	2006		2005	
Held-to-Maturity	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 18	$ 18	$ 45	$ 46
Due after one year through five years	103	103	70	71
Due after five years through ten years	90	91	80	76
Due after ten years	83	86	5	5
Total Held-to-Maturity	$ 294	$ 298	$ 200	$ 198

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

	2006			
Available-for-Sale	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
U.S. Treasury and U.S. Government corporations and agencies	$ 7,208	$ 371	$ 71	$ 7,508
U.S. agencies, state, and municipal	2,851	334	12	3,173
Foreign governments	2,310	118	20	2,408
Corporate	66,674	1,759	919	67,514
Mortgage-backed securities	18,944	237	168	19,013
Asset-backed securities	9,890	43	54	9,879
Redeemable preferred securities	271	6	4	273
Total Available-for-Sale	$ 108,148	$ 2,868	$ 1,248	$ 109,768

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

	2005			
Available-for-Sale	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
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	9,107	44	56	9,095
Redeemable preferred securities	286	14	-	300
Total Available-for-Sale	$ 100,848	$ 3,844	$ 982	$ 103,710

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

At December 31, 2006 and 2005, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to $78 million and $307 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 $13 million and $14 million at December 31, 2006 and 2005, respectively. These investments have been deemed other than temporarily impaired.

Equity Securities

At December 31, 2006 and 2005, the distribution of gross unrealized gains and losses on unaffiliated available-for-sale equity securities was as follows (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
2006	$ 2,906	$ 930	$ 9	$ 3,827
2005	3,144	727	28	3,843

Investments in preferred stock that have been non-income producing for the last twelve months total $0 million and $2 million at December 31, 2006 and 2005, 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, 2006 and 2005 was estimated to be $12,755 million and $11,821 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, 2006 and 2005, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to $582 million and $563 million, respectively, at fixed and floating interest rates ranging from 3.6% to 7.6%, and 3.6% to 12.3%, 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, 2006 and 2005, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	2006		2005	
	Carrying Value	% of Total	Carrying Value	% of Total
Property Type:				
Office building	$ 3,452	27.7%	$ 3,658	32.2%
Retail facilities	3,025	24.3%	2,792	24.5%
Industrial	2,042	16.4%	2,035	17.9%
Apartment buildings	2,269	18.2%	1,450	12.7%
Residential	1,462	11.7%	1,207	10.6%
Other	212	1.7%	231	2.1%
Total	$ 12,462	100.0%	$ 11,373	100.0%

	2006		2005	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic Location:				
Central	$ 3,195	25.7%	$ 2,923	25.7%
South Atlantic	3,052	24.5%	2,830	24.9%
Middle Atlantic	2,772	22.2%	2,307	20.3%
Pacific	2,615	21.0%	2,417	21.3%
New England	777	6.2%	843	7.4%
Other	51	0.4%	53	0.4%
Total	$ 12,462	100.0%	$ 11,373	100.0%

The activity in the mortgage loan specific and general reserves as of December 31, 2006 and 2005 is summarized below (in millions):

	2006	2005
Beginning balance	$ 24	$ 59
Additions charged to operations	2	12
Direct writedowns	-	(9)
Recoveries	-	(1)
Reductions due to sales	-	(37)
Ending balance	$ 26	$ 24

Other Long-term Investments

The components of other long-term investments as of December 31, 2006 and 2005 were as follows (in millions):

	2006	2005
Limited partnerships/Limited liability companies	$ 3,501	$ 2,606
Collateralized third party loans	1,732	1,355
Derivatives	526	614
Real estate	302	247
Total other long-term investments	$ 6,061	$ 4,822

Net unrealized investment gains on limited partnerships and limited liability companies aggregated $4 million and $0 million for the years ended December 31, 2006 and 2005, 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, 2006 and 2005 was $33 million and $35 million, respectively. Depreciation expense totaled $4 million and $7 million for the years ended December 31, 2006 and 2005, 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 $3,086 million and $1,988 million for December 31, 2006 and 2005, respectively.

Investments in real estate that have been non-income producing for the last twelve months totaled $2 million at December 31, 2006 and 2005, respectively. These investments have been deemed other than temporarily impaired.

Variable Interest Entities (VIEs)

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

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

The following table presents the (i) total assets of and maximum exposure to loss relating to VIEs for which the Company has concluded that it is the primary beneficiary and which are consolidated in the Company's consolidated financial statements at December 31, 2006 and 2005; and (ii) the Company's maximum exposure to loss relating to its investments which are deemed significant variable interests. For these investments, the Company is not the primary beneficiary and therefore the investments are not consolidated.

	December 31, 2006 (In millions)		
	Primary Beneficiary		Not Primary Beneficiary
	Total Assets	Maximum Exposure to Loss	Maximum Exposure to Loss
Asset-backed securitizations	$ -	$ -	$ 78
Synthetic guaranteed investment contracts	117	122	-
Collaterized debt obligations	261	16	-
Private placement structured notes	-	-	286
Other long-term investments (equity in asset- backed securitizations)	-	-	23
Limited parternships	-	-	18
Investment in synthetic fuel plant	-	-	13
Total	$ 378	$ 138	$ 418

	December 31, 2005 (In millions)		
	Primary Beneficiary		Not Primary Beneficiary
	Total Assets	Maximum Exposure to Loss	Maximum Exposure to Loss
Asset-backed securitizations	$ -	$ -	$ 103
Synthetic guaranteed investment contracts	166	173	-
Collaterized debt obligations	302	56	-
Limited liability company (LLC)	39	29	-
Private placement structured notes	-	-	291
Other long-term investments (equity in asset- backed securitizations)	-	-	32
Limited parternships	-	-	9
Investment in synthetic fuel plant	-	-	17
Total	$ 507	$ 258	$ 452

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

In 2005, the Company was determined to be the primary beneficiary for: i) a trust established for certain of the Company's synthetic guaranteed investment contracts; ii) two entities established as part of the Company's securitization program; and iii) 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.

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

Restricted Assets and Special Deposits

Assets of $400 million and $334 million at December 31, 2006 and 2005, respectively, were on deposit with governmental authorities or trustees as required by certain state insurance and foreign government laws and are included within related invested assets in the accompanying Consolidated Balance Sheet.

NOTE 6 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES

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

	2006	2005
Fixed maturities	$ 6,687	$ 5,897
Equity securities	130	114
Mortgage loans	799	769
Real estate	37	43
Policy loans	417	399
Derivatives	9	41
Limited partnerships and other invested assets	512	710
Other	148	105
Gross investment income	8,739	8,078
Investment expenses	(507)	(410)
Net investment income	$ 8,232	$ 7,668

For the years ended December 31, 2006 and 2005, net investment gains (losses) were as follows (in millions):

	2006	2005
Fixed maturities	$ (83)	$ (60)
Equity securities	1,727	205
Mortgage loans	-	(11)
Real estate	3	581
Other long-term investments	256	134
Derivatives instruments	788	(1,187)
Foreign exchange	(630)	423
Other	61	22
Net investment gains	$ 2,122	$ 107

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

The gains and (losses) on trading securities (both fixed maturities and equity securities) amounted to $1,164 million and $(111) million for the years ended December 31, 2006 and 2005, respectively. Included in net trading gains of $1,164 million for 2006 is the cumulative market value adjustment of ESI shares of $1,228 million. 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 $302 million and $419 million for the years ended December 31, 2006 and 2005, respectively; and realized losses were $317 million and $336 million, respectively.

Losses from other than temporary impairments in fixed maturities (included in net investment gains on fixed maturities above) were $19 million and $71 million for 2006 and 2005, respectively. Related losses from other than temporary impairments in equity securities (included in net investment gains on equity securities above) were $28 million for 2006 and 2005.

During 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.

Gains and (losses) on derivative instruments primarily include currency swap hedges on foreign currency denominated global medium term note liabilities and equity options on ESI.

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

The following table presents the gross unrealized losses and fair values for fixed maturities and equities with unrealized losses that are deemed to be only temporarily impaired, aggregated by investment category and length of time that individual securities have been in an unrealized loss position, at December 31, 2006 and 2005 (in millions):

2006

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

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

At December 31, 2006, fixed maturities represented approximately 99% of the Company's total unrealized loss amount, which was comprised of approximately 4,744 different securities. Equity securities comprised the remaining 1%, consisting of 153 securities.

Fixed maturities that were in an unrealized loss position less than twelve months at December 31, 2006, totaled $246 million or 20% of the Company's total fixed maturities unrealized loss, and securities in an unrealized loss position greater than twelve months totaled $1,003 million or 80% of the Company's total fixed maturities unrealized loss. Of the total amount of fixed maturities unrealized losses, $1,148 million or 92% is related to unrealized losses on investment grade securities. Investment grade is defined as a security having a credit rating from the 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 $101 million or 8% 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 2006 has contributed to the decline in value of our fixed maturity investments as follows:

U.S. Treasury and Government Corporations and Agencies. Unrealized losses on the Company's investments in U.S. Treasury obligations and direct obligations of U.S. corporations and agencies were $71 million or 6% of the Company's unrealized losses for fixed maturities. These were spread across over 389 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 $919 million or 74% of the total unrealized losses for fixed maturities. The amount of unrealized losses on the Company's investment in corporate bonds is spread over 2,701 individual securities with varying interest rates and maturities. Corporate securities with a fair value below 95% of the security's amortized cost totaled $360 million or 29% 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 electric utilities ($45 million), finance ($23 million), banking ($18 million) and building products ($15 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 $168 million or 13% 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 1,014 fixed and variable rate investment grade securities. The mortgage-backed securities that were priced at or greater than 95% of the security's amortized cost represented $153 million or 91% 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 $54 million or 4% 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 489 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. Asset-backed securities that were priced below 95% of the security's amortized cost represented $11 million or 20% of the total unrealized losses for asset-backed securities.

Net Unrealized Investment Gains (Losses)

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

The amounts for the years ended December 31, 2006 and 2005 are as follows (in millions):

	2006	2005
Net unrealized investment gains, beginning of the year	$ 1,038	$ 2,118
Changes in net unrealized investment gains (losses) attributable to investments:		
Net unrealized investment (losses) gains on investments arising during the period	(533)	(1,179)
Less: Reclassification adjustments for gains included in net income	187	284
Change in net unrealized investment gains, net of adjustments	(720)	(1,463)
Impact of net unrealized investment gains (losses) on:		
Policyholders' account balances and future policy benefits	226	(80)
Other assets (Sales inducements)	4	25
Deferred policy acquisition costs	216	438
Change in net unrealized investment gains	(274)	(1,080)
Net unrealized investment gains, end of year	$ 764	$ 1,038

Net unrealized investment losses on investments arising during the period reported in the above table are net of income tax benefit of $(287) million and $(635) million for the years ended December 31, 2006 and 2005, respectively.

Reclassification adjustments reported in the above table for the years ended December 31, 2006 and 2005 are net of income tax expense of $101 million and $153 million, respectively.

Policyholders' account balances and future policy benefits reported in the above table are net of income tax expense (benefit) of $122 million and $(43) million for the years ended December 31, 2006 and 2005, respectively.

Other assets (sales inducements) reported in the above table are net of income tax expense of $2 million and $14 million for the years ended December 31, 2006 and 2005, respectively.

Deferred policy acquisition costs in the above table for the years ended December 31, 2006 and 2005 are net of income tax expense of $116 million and $232 million, respectively.

NOTE 7 - SEPARATE ACCOUNTS

Separate Accounts Registered with the SEC

The Company maintains separate accounts, which are registered with the SEC, for its variable deferred annuity and variable life products with assets of $15,662 million and $13,457 million at December 31, 2006 and 2005, 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 $3,362 million and $2,577 million at December 31, 2006 and 2005, respectively. The assets in these separate accounts are comprised of privately placed corporate bonds, mortgage-backed securities, commercial mortgages and equities, as well as publicly traded investment grade corporate bonds, high-yield bonds, treasury bonds and equities. The assets in these separate accounts are carried at fair value.

NOTE 8 - DEFERRED POLICY ACQUISITION COSTS AND SALES INDUCEMENTS

An analysis of deferred policy acquisition costs for the years ended December 31, 2006 and 2005 was as follows (in millions):

	2006	2005
Balance at beginning of year	$ 5,189	$ 4,317
Current year additions	1,488	1,339
Amortized during year	(926)	(1,133)
Balance at end of year before related adjustments	5,751	4,523
Adjustment for changes in unrealized investment gains (losses)	332	670
Cumulative translation adjustment	30	(4)
Balance at end of year	$ 6,113	$ 5,189

Sales Inducements

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

	2006	2005
Balance at beginning of year	$ 230	$ 195
Capitalization	37	30
Amortization	(44)	(34)
Unrealized investment gains	5	39
Balance at end of year	$ 228	$ 230

NOTE 9 – POLICYHOLDERS' LIABILITIES

Policyholders' Account Balances

Policyholders' account balances at December 31, 2006 and 2005 were as follows (in millions):

	2006	2005
Deferred annuities	$ 23,243	$ 21,388
Guaranteed investment contracts	23,330	21,436
Universal life contracts	16,122	15,232
Immediate participation guarantee contracts	3,490	3,444
Dividend accumulations and continued interest accounts	1,415	1,426
Annuities certain	565	587
Other	1,005	938
Total	$ 69,170	$ 64,451

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, and the fair value of embedded derivatives in the above contracts.

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, 2006 and 2005, the balance under those funding agreements issued by the Company to the SPE was $9,689 million and $7,521 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, 2006:

Product	Interest Rate	Withdrawal/Surrender Charges
Deferred annuities	2.20% to 8.00%	Surrender charges 0% to 10% for up to 10 years.
Guaranteed investment contracts	1.97% 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	3.10% to 6.35%	Various up to 19 years.
Immediate participation guarantee contracts	5.69% to 7.56%	Contractually limited or subject to fair value adjustment.
Dividend accumulations and Continued interest accounts	2.11% to 4.75%	Generally, not subject to withdrawal/surrender charges, except for certain contracts where withdrawal/surrender is limited or subject to a fair value adjustment.
Annuities Certain	3.02% to 10.99%	No surrender changes or withdrawals

The following table discloses the fair values of the Company's investment contracts at December 31, 2006 and 2005 (in millions):

	2006	2005
Deferred annuities	$ 23,243	$ 21,388
Guaranteed investment contracts	23,168	21,331
Immediate participation guarantee contracts	3,481	3,397
Dividend accumulations and continued interest accounts	1,415	1,426
Annuities certain	637	660
Other	1,005	938
Total	$ 52,949	$ 49,140

For deferred annuities, dividend accumulations and other deposit type contracts, account value approximates fair value. For funding agreements backing medium term notes, fair values were based on available market prices for the notes. For other guaranteed investment contracts and annuities certain liabilities, fair values are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For immediate participation guarantee contracts, which have no defined maturities, fair values are equal to the estimated amount payable on demand at the balance sheet date.

Future Policy Benefits

Future policy benefits at December 31, 2006 and 2005 were as follows (in millions):

	2006	2005
Life insurance	$ 47,678	$ 44,669
Individual and group payout annuities	7,548	7,042
Group annuities	3,111	3,196
Other contract liabilities	1,853	1,752
Total future policy benefits	$ 60,190	$ 56,659

Participating life insurance contracts represented 72% and 71% of total life insurance in force at December 31, 2006 and 2005, respectively. Participating life insurance contracts also represented 95% and 97% of total life insurance premiums for the years ended December 31, 2006 and 2005, respectively.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves at December 31, 2006:

Product	Mortality	Interest Rate	Estimation Method
Traditional life insurance policies	Generally rates guaranteed in calculating cash surrender values.	2.0% to 5.5%	Net level premium.
Term life insurance policies	Based upon best estimates at time of policy issuance with provision for adverse deviations ("PAD").	2.0% to 7.7%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD.
Individual and group payout annuities	Based upon best estimates at time of policy issuance with PAD.	4.3% 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, 2006 and 2005, the Company had the following variable contracts with guarantees. (Note that the Company's variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive). For guarantees of amounts in the event of death, the net amount at risk is defined as the current guaranteed minimum death benefit ("GMDB") in excess of the current account balance at the balance sheet date. For guarantees of accumulation balances, the net amount at risk is defined as the guaranteed minimum accumulation benefit ("GMAB") minus the current account balance.

Variable Annuity Contracts – GMDB and GMAB

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

a) Return of deposits: the benefit is the greater of current account value or premiums paid (adjusted for withdrawals)

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

The following chart provides the account value, net amount at risk and average attained age of contractholders at December 31, 2006 and 2005 for GMDB's and GMAB's ($ in millions):

2006

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

2005

	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):

	GMDB	GMAB	Totals
Balance at January 1, 2005	$ 23	$ 3	$ 26
Incurred guarantee benefits	12	6	18
Paid guarantee benefits	(5)	-	(5)
Balance at December 31, 2005	30	9	39
Incurred guarantee benefits	4	(2)	2
Paid guarantee benefits	(3)	-	(3)
Balance at December 31, 2006	$ 31	$ 7	$ 38

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

The following assumptions and methodology were used to determine the GMDB liability at December 31, 2006 and 2005, respectively:

- Data used was 1,000 stochastically generated investment performance scenarios.
- Mean investment performance assumption ranged from 7.02% to 7.24% for 2006 and 7.10% to 7.34% for 2005.
- Volatility assumption was 14.58% for 2006 and 15.3% for 2005.
- For 2006, mortality was assumed to be 93% of the A2000 table. For 2005, the mortality assumption was 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 0% to 18%, with an average of 8% for 2006, and 1% to 21%, with an average of 6% for 2005.
- Discount rates ranged from 6.01% to 7.61 % for 2006 and 4.93% to 7.61% for 2005.

GMAB's are considered to be derivatives under Statement of Financial Accounting Standards No. 149 (“SFAS 149”), “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”, and are recognized at fair value through earnings.

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):

	December 31, 2006		December 31, 2005	
Investment Fund Option:	GMDB	GMAB	GMDB	GMAB
Separate account:				
Equity	$ 8,897	$ 918	$ 7,403	$ 567
Fixed income	2,413	173	2,306	132
Balanced	1,830	110	1,651	70
General account	4,278	80	4,914	70
Total	$ 17,418	$ 1,281	$ 16,274	$ 839

SOP 03-01 Liability for Individual Life Products

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

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

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

	2006	2005
Beginning balance	$ 15	$ 12
Net liability increase	8	3
Ending balance	$ 23	$ 15

NOTE 10 - FEDERAL INCOME TAXES

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

	2006	2005
Current		
Federal	$ 612	$ 244
State and Local	3	8
Foreign	6	16
	621	268
Deferred		
Federal	422	(25)
Foreign	23	27
	445	2
Income tax expense	$ 1,066	$ 270

The components of the net deferred tax asset/(liability) as of December 31, 2006 and 2005 were as follows (in millions):

	2006	2005
Deferred tax assets:		
Policy reserves	$ 2,183	$ 2,303
Agent & employee benefits	946	395
Net operating losses	71	152
Other reserves	34	88
Investment in foreign subsidiary	2	2
Other deferred tax asset	28	28
Deferred tax assets before valuation allowance	3,264	2,968
Valuation allowance	(21)	(26)
Gross deferred tax assets	3,243	2,942
Deferred tax liabilities:		
Deferred policy acquisition costs	1,398	1,059
Investments	1,267	1,556
Deferred distribution costs	19	23
Intangibles	72	30
Other deferred tax liabilities	35	10
Gross deferred tax liabilities	2,791	2,678
Net deferred tax asset/(liability)	$ 452	$ 264

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 $21 million and $26 million related to foreign net operating loss (“NOLs”) carryforwards and other future deductible amounts at December 31, 2006 and 2005, 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, 2006 and 2005, the Company had gross NOL's of $236 million and $497 million, respectively. Of these amounts, $89 million and $424 million, respectively, are attributable to the Company's Mexican subsidiary and expire between 2009 and 2012. The balance of the remaining NOL's is attributable to certain other foreign subsidiaries and expires between 2007 and 2011. Gross deferred tax assets with respect to the NOL's were $71 million at December 31, 2006 and $152 million at December 31, 2005. Of these amounts, $25 million and $119 million, respectively, are attributable to the Company's Mexican subsidiary (28% tax rate).

The Company has not provided U.S. income taxes on unremitted foreign earnings of certain non-U.S. operations, specifically one of the Company's Mexican subsidiaries and its Canadian branch operations, because such earnings are considered to be permanently reinvested in such operations. The Company has undistributed earnings of foreign subsidiaries of $252 million and $239 million at December 31, 2006 and 2005, 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, 2006 and 2005, the Company recorded a current income tax payable of $68 million and $129 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 2006 and 2005:

	2006	2005
Statutory federal income tax rate	35.00%	35.00%
Foreign operations, net of foreign taxes	(0.55)	(0.76)
Tax exempt income	(2.19)	(6.60)
Investment credit	(1.19)	(3.94)
Other	(0.79)	(1.42)
Effective tax rate	30.28%	22.28%

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

NOTE 11 – REINSURANCE

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk. The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company 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 58% and 57% of the reinsurance ceded at December 31, 2006 and December 31, 2005.

Life insurance reinsured was 28% and 29% of total life insurance in-force at December 31, 2006 and 2005, respectively.

The effects of reinsurance for the years ended December 31, 2006 and 2005 were as follows (in millions):

	2006	2005
Premiums:		
Direct	$ 9,283	$ 8,523
Assumed	266	226
Ceded	(449)	(424)
Net premiums	$ 9,100	$ 8,325
FAS 97 fee income ceded	$ 168	$ 143
Policyholders' benefits ceded	$ 528	$ 489
Decrease (increase) in ceded liabilities for future policy benefits	$ (7)	$ 41
Reinsurance recoverable	$ 462	$ 403
Reinsurance payable	$ 104	$ 93

NOTE 12 – DEBT

For the years ended December 31, 2006 and 2005, the fair value of debt was $2,542 million and $2,316 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, 2006 and 2005 (in millions):

	2006	2005
Capital Corporation's commercial paper debt issuance, various maturity dates through February 2007 and February 2006 for 2006 and 2005, respectively, (the weighted average interest rate is approximately 5.31% and 4.27% for 2006 and 2005, respectively)	$ 492	$ 498
Shared Appreciation Income Linked Securities, due August 22, 2011 (coupon rate of 3.3%)	216	211
Shared Appreciation Income Linked Securities II, due April 28, 2008 (implicit coupon rate of 2.27%)	288	276
5.875% Surplus Notes, due May 15, 2033	991	991
Non-recourse debt	455	216
Other	64	53
Total debt	$ 2,506	$ 2,245

At December 31, 2006 and 2005, the face value of commercial paper issued by New York Life Capital Corporation ("Capital Corporation"), an indirect wholly owned subsidiary of NYLIC, was approximately $497 million and $501 million, respectively, with an unamortized discount of $5 million and $3 million for 2006 and 2005, respectively. For the years ended December 31, 2006 and 2005, interest expense totaled $25 million and $16 million, respectively.

On August 16, 2001, the Company entered into an agreement with Credit Suisse ("CS") (formerly Credit Suisse First Boston International and Credit Suisse First Boston), referred to as Shared Appreciation Income Linked Securities ("SAILS") in the above table. Under the agreement, the Company has entered into a forward sale of certain of its shares of ESI, an investment of the Company.

The Company may deliver up to 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. 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, 2006 and 2005, the accretion of interest expense was $5 million. The Company pays CS a 3.3% annual coupon payment quarterly on each November 22, February 22, May 22, and August 22. For each of the years ended December 31, 2006 and 2005, interest expense was $8 million. At December 31, 2006 and 2005, accrued interest was $1 million.

On April 28, 2003, the Company entered into another agreement with CS, referred to as Shared Appreciation Income Linked Securities II ("SAILS II") in the above table. Under this agreement, the Company has entered into a forward sale of certain of its shares of ESI. The Company may deliver up to 11 million shares of ESI common stock on April 28, 2008 or settle the transaction in cash instead of delivering shares. Upon entering into the transaction the Company received $27.72 per share or $305 million, less prepaid interest and offering costs, bringing net proceeds to $273 million. The Company is entitled to 100% of the appreciation up to $33.26 per share. Any appreciation in excess of $33.26 per share will be due to CS upon settlement. 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, 2006 and 2005, the accretion of interest expense totaled $12 million.

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

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of NYLIC. The Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent of the New York Department of Insurance and only out of surplus funds, which the Superintendent determines to be available for such payments under New York State Insurance law. Provided that approval is granted by the Superintendent, the Notes may be redeemed at the option of the Company at any time at the "make-whole" redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed, or the sum of the present values of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the notes are to be redeemed, discounted to a semi-annual basis at the adjusted treasury rate plus 20 basis points ("bps").

For the years ended December 31, 2006 and 2005, interest expense totaled $59 million and $66 million, respectively on NYLIC's surplus notes. Accrued interest at December 31, 2006 and 2005 was $7 million.

At December 31, 2006, the Company was required to consolidate one asset-backed investment vehicle (commonly referred to as collateralized debt obligation, or "CDO"), and one limited partnership ("LP"). For the year ended December 31, 2006, the debt outstanding relating to the consolidated CDO and LP was $455 million, all of which is non-recourse to the Company. At December 31, 2005, the company was required to consolidate two CDOs. For the year ended December 31, 2005, the debt outstanding relating to the consolidated CDOs was $216 million, all of which was non-recourse to the Company.

Amounts due on other debt are, $7 million in 2007, $23 million in 2008, $8 million in 2009, $9 million in 2010, $2 million in 2011 and $15 million thereafter.

Line of Credit

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

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

NOTE 13 - BENEFIT PLANS

Pension Plans

NYLIC maintains the New York Life Insurance Company Pension Plan (the "Pension Plan"). The Pension Plan is a qualified defined benefit pension plan covering substantially all eligible full-time and part-time employees of NYLIC and certain eligible employees of subsidiaries that adopt the Pension Plan. Agents are not eligible for benefits under the Pension Plan. Pension Plan participants are entitled to annual pension benefits beginning at normal retirement age (age 65), equal to a percentage of their final average salary (average monthly salary for the highest paid 60 consecutive months of the last 120 months the participant is employed by the Company) less a Social Security offset for each active participant in the Plan as of December 31, 1988. For benefits accrued on or after January 1, 2004, the accrual percentage of final average salary used to determine benefits was amended from 1.65% to 1.45%. NYLIC also maintains the New York Life Excess Benefit Plan, which is a nonqualified, unfunded arrangement, which provides benefits in excess of the maximum benefits that may be paid or accrued under the Pension Plan.

NYLIC also maintains the NYLIC Retirement Plan ("Retirement Plan"). The Retirement Plan is a qualified defined benefit pension plan covering substantially all eligible agents under contract to NYLIC or its domestic life insurance subsidiaries on or after the effective date of the Plan, January 1, 1982.

Retirement Plan participants are entitled to annual pension benefits beginning at normal retirement date, which is the later of the last day of the month in which age 65 is attained or the completion of 5 years of vesting service. In general, the benefit is based on the agent's Frozen Accrued Benefit, if applicable, and his/her Earnings-Related Benefit Accruals ("ERBA"). The Frozen Accrued Benefit is the amount accrued as of December 31, 1990, for service, if any, on or prior to that date under the production-related benefit formula. For periods of service after December 31, 1990, the agent's ERBA is calculated by multiplying the sum of his/her Pensionable Earnings credited after 1990 by 2.75%. Prior to termination (discussed below), the Company also maintained the NYLIC Excess Benefit Plan which was a nonqualified, unfunded arrangement that provided (i) benefits in excess of the maximum benefits that may be paid or accrued under the NYLIC Retirement Plan and (ii) amounts to certain eligible agents whose retirement benefit under the NYLIC Retirement Plan is less than their Senior NYLIC Income (income payable to an agent who has completed 20 full years under a N4, N5 or N6 NYLIC contract) so that their total retirement benefit under the NYLIC Retirement Plan and the additional amount is equivalent to their Senior NYLIC Income. In 2005, the Company entered into a settlement agreement in Lucich v. New York Life Insurance Co., No. 01-CIV-1747 (S.D.N.Y.). Pursuant to the settlement agreement, (i) the NYLIC Retirement Plan's benefit formula was amended and prospectively changed for certain participants resulting in certain non-qualified payments becoming payable from the Plan on a prospective basis; (ii) the NYLIC Excess Benefit Plan was terminated; and (iii) the Company established the NYLIC 415 and 401(a)(17) Excess Benefit Plan, which is a nonqualified, unfunded arrangement to provide benefits in excess of the maximum benefits that may be paid or accrued under the NYLIC Retirement Plan.

The Pension Plan and the Retirement Plan are funded solely by NYLIC contributions. NYLIC's funding policy for each of these Plans is to make annual contributions that are no less than the minimum amount needed to comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and no greater than the maximum amount deductible for federal income tax purposes. NYLIC made contributions to the Pension Plan in 2006 and 2005 of $0 million and $145 million, respectively. Contributions to the Retirement Plan in 2006 and 2005 were $125 million and $95 million, respectively.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts issued to each plan. Each plan currently invests in two group annuity contracts: one contract is an immediate participation guarantee contract relating to the Company's general account ("GA Contract"), and the other contract relates to 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 (i) on a pre-tax basis to a 401(k) account, a percentage of base salary and eligible incentive compensation (up to 10% for employees whose total annual compensation exceeds the 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 (ii) to a non-tax deductible account up to 10% of base salary and eligible incentive pay. Highly compensated employees are limited to a combined 401 (k) and non-tax deductible rate of 10%. Participants may also roll over qualified distributions from eligible retirement plans into the EPSI. Effective September 30, 2002, EPSI was amended to allow additional pre-tax 401(k) "catch-up" contributions for participants age 50 and over ($5,000 for 2006 and $4,000 for 2005).

NYLIC annually determines the level of the Company's matching contributions to EPSI. In 2006 and 2005, 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, 2006 and 2005, the Company's matching contributions to EPSI totaled $19 million, and $18 million, respectively. EPSI also provides that New York Life Investment Management LLC ("NYLIM"), New

York Life Trust Company ("NYLTC") and New York Life Trust Company, FSB, (“NYLTC FSB”), all indirect wholly owned subsidiaries of NYLIC, may make a discretionary company contribution for certain eligible employees of NYLIM, NYLTC and NYLTC FSB. During 2006, (for the 2005) Plan Year, NYLIM, NYLTC and NYLTC FSB approved a discretionary contribution of 5% of Plan compensation, which totaled $3 million for eligible NYLIM employees, and $16,321 for certain eligible NYLTC and NYLTC FSB employees. During 2005 (for the 2004) Plan Year, NYLIM, NYLTC and NYLTC FSB approved a discretionary contribution of 5% of Plan compensation, which totaled $3 million for eligible NYLIM employees, and $20,168 for certain eligible NYLTC and NYLTC FSB employees. NYLIC also maintains the Excess EPSI Plan for certain eligible participants, which is a nonqualified unfunded arrangement that credits amounts and matching contributions in respect of compensation in excess of the amount that may be taken into account under EPSI because of applicable IRS limits.

NYLIC also maintains the Agents’ Progress-Sharing Investment Plan (“APSI”) which is a 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 2006 and 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 the APSI. Effective September 30, 2002, APSI was amended to allow additional pre-tax 401(k) “catch up” contributions for participants age 50 and over ($5,000 for 2006 and $4,000 for 2005).

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 2006 and 2005, the Company’s contributions to APSI totaled $3 million and $2 million, respectively. The Company also maintains the Excess APSI Plan, which is a nonqualified, unfunded arrangement that credits Company contributions in excess of the maximum Company contributions that may be made under APSI because of certain applicable IRS limits.

Other Postretirement Benefits

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

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

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

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

It has been the Company's practice to prefund postretirement benefits to the extent allowable for federal income tax purposes. Prefunding contributions are made to the Retired Employee VEBA Trust and the Retired Agent VEBA Trust, which are used to partially fund postretirement health and life benefits other than pensions. For the years ended December 31, 2006 and 2005, prefunding contributions to the Retired Employee VEBA Trust totaled $2 million in each year. For the years ended December 31, 2006 and 2005, prefunding contributions to the Retired Agent VEBA Trust was $0 million and $1 million, respectively.

Postemployment Benefits and Compensated Absences

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

The Company has accrued a $24 million and $23 million obligation related to these benefits at December 31, 2006 and 2005, respectively. For the years ended December 31, 2006 and 2005, the net periodic benefit cost associated with these programs was $7 million and $6 million, respectively.

The adoption of SFAS 158 resulted in a reduction of $805 million, net of income tax, to accumulated other comprehensive income. The following table summarizes the incremental effects of applying SFAS 158 on individual line items in the accompanying Consolidated Balance Sheet on December 31, 2006:

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

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

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation at beginning of year*	$ 4,085	$ 3,617	$ 1,197	$ 1,047
Service cost	114	96	31	28
Interest cost	216	212	63	61
Contributions by plan participants	-	-	3	2
Actuarial (gains) losses	(159)	322	21	151
Benefits paid	(175)	(170)	(58)	(51)
Plan amendments	13	8	(4)	(41)
Benefit obligation at end of year*	$ 4,094	$ 4,085	$ 1,253	$ 1,197
Change in plan assets:				
Fair value of plan assets at beginning of year*	$ 3,210	$ 2,746	$ 412	$ 395
Actual return on plan assets	395	370	35	34
Contributions by employer	137	264	43	32
Contributions by plan participants	-	-	3	2
Benefits paid	(175)	(170)	(58)	(51)
Fair value of plan assets at end of year*	$ 3,567	$ 3,210	$ 435	$ 412
Funded Status:				
Funded Status*	$ (528)	$ (875)	$ (817)	(826)
Contributions to VEBA Trust	-	-	2	-
Unamortized prior service cost(1)	-	42	-	(27)
Unrecognized net loss(1)	-	1,445	-	302
Contributions by employer (October 1 - December 31)	4	2	11	10
Intangible asset(1)	-	(5)	-	-
Medicare Part D subsidy	-	-	(1)	-
Minimum pension liability (pre tax) included in Accumulated other comprehensive income/(loss)(1),(2)	-	(53)	-	-
Net amount recognized	$ (524)	$ 556	$ (805)	$ (541)
Accumulated benefit obligation for all defined pension plans at December 31	$ 3,667	$ 3,598		

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

(1) As a result of the adoption of SFAS No. 158 on December 31, 2006, these items are no longer applicable.

(2) An additional minimum liability ("AML") adjustment is required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. The AML, 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, the Company established a pre-tax AML adjustment to its New York Life Excess Benefit Plan and NYLIC Excess Benefit Plan of $53 million. Through September 30, 2006, the Company reduced the pre-tax AML by $18 million. Upon adoption of SFAS 158 at December 31, 2006, the $35 million remaining AML was no longer required.

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2006	2005	2006	2005
Amounts recognized in the accompanying balance sheet:				
Other assets	$ -	$ 556	$ -	$ -
Other liabilites	$ (524)	$ -	$ (805)	$ (541)
Amounts recognized in accumulated other comprehensive income:				
Net actuarial loss	$ 1,048	$ -	$ 305	$ -
Prior service cost/(credit)	48	-	(65)	-
Total	$ 1,096	$ -	$ 240	$ -
Estimated amounts amortized from accumulated other comprehensive income into net periodic benefit cost during fiscal year 2007:				
Net actuarial loss	$ 75	$ -	$ 13	$ -
Prior service cost/(credit)	8	-	(6)	-
Total	$ 83	$ -	$ 7	$ -

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

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2006	2005	2006	2005
Components of net periodic benefit cost:				
Service cost	$ 114	$ 96	$ 31	$ 28
Interest cost	216	212	63	61
Expected return on plan assets	(251)	(236)	(30)	(31)
Amortization of losses	95	69	11	1
Amortization of prior service cost/(credit)	7	7	(6)	(3)
Net periodic benefit cost	$ 181	$ 148	$ 69	$ 56

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

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

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

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

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

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

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

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

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

In determining the obligations in 2006, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 8.00% for 2007 for all participants. In measuring the 2006 obligations the annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 12.00% for 2007 for all participants. For the 2006 measurement, 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 5.00% for all participants and remain at that level thereafter.

In determining the obligations 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 2006 for all participants. In measuring the 2005 obligations the annual rate of increase in the per capita cost of covered health care prescription drug benefits was assumed to be 13.00% for 2006 for all participants. For the 2005 measurement, 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 5.00% for all participants and remain at that level thereafter.

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

	2006 One Percent Increase	2006 One Percent Decrease
Effect on total of service and interest cost components	$ 14	$ (11)
Effect on accumulated postretirement benefit obligation	$ 128	$ (105)

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

	Target Allocation Percentage	Percentage of Plan Assets	
Asset Category	2006 and 2005	2006	2005
Fixed income	40%	42%	45%
Equity securities	60%	58%	55%
Total	100%	100%	100%

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

The Investment Committees of the Agent and Employee defined benefit pension plans have established a broad investment strategy targeting an asset allocation of 60% equity 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 the General Account contract for each Plan and the separate accounts under each Plan's Separate Account contract to insure the assets are meeting each plan's objectives.

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

	Target Allocation Percentage		Percentage of VEBA Trust Assets			
	2006 and 2005		2006		2005	
Asset Category	Health	Life	Health	Life	Health	Life
Fixed income securities	30%	30%	39%	29%	43%	28%
Equity securities	70%	70%	61%	71%	57%	72%
Total	100%	100%	100%	100%	100%	100%

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

Cash Flows

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

Estimated Future Benefit Payments:

The estimated future benefit payments are based on the same assumptions as used to measure the benefit obligations at December 31, 2006 and 2005. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan Benefits	Other Post Retirement Plan Benefits	Postemployment Plan Benefits	Estimated Federal Subsidy
2007	$ 188	$ 68	$ 6	$ (5)
2008	199	73	7	(5)
2009	209	79	7	(6)
2010	220	84	7	(7)
2011	231	89	8	(7)
Thereafter (2012-2016)	1,347	514	44	(44)
Total	$ 2,394	$ 907	$ 79	$ (74)

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

Other

The Company's accumulated postretirement benefit obligation and net periodic benefit costs include the effect of the federal subsidy provided by the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit under Medicare beginning in 2006. Under the Act, employers who sponsor postretirement plans that provide prescription drug benefits that are actuarially equivalent to Medicare Part D qualify to receive subsidy payments. The reduction in the accumulated postretirement benefit obligation related to the Act was $162 million and $157 million as of December 31, 2006 and 2005, respectively. For the year ended December 31, 2006 the reduction of net periodic postretirement benefit cost was $22 million due to reductions in service cost of $5 million, interest cost of $9 million, and amortization of net actuarial loss of $8 million due to the subsidy. During 2006, the Company received $1 million in Medicare Part D subsidy payments.

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative financial instruments to manage interest rate, currency, commodity and market risk. These derivative financial instruments include foreign exchange forward contracts, interest rate swaps, commodity options, interest rate and equity options and currency swaps. The Company does not engage in derivative financial instrument transactions for speculative purposes.

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

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

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.

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.

Fair Value Hedges

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.

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 2006 and 2005, there were no fair value hedges that were discontinued for hedge accounting treatment due to ineffectiveness.

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 ineffective portion of fair value hedges was $(1) million and $0 million for the years ended December 31, 2006 and 2005, respectively and were included in net investment gains (losses) in the accompanying Consolidated Statement of Income. 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 $16 million and $34 million at December 31, 2006 and 2005, respectively.

All components of each derivative’s gain or loss were included in the assessment of hedge ineffectiveness. There were no instances during 2006 and 2005 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.

The ineffective portion of cash flow hedges was $0 million for the years ended December 31, 2006 and 2005. All components of each derivative’s gains or losses were included in the assessment of hedge ineffectiveness. There were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transactions did not occur on the anticipated date or in the additional time period permitted by SFAS 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. 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 $5,447 million and $3,691 million at December 31, 2006 and 2005, respectively.

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

	2006	2005
Other comprehensive income balance at the beginning of the year	$ 29	$ 49
(Losses) gains deferred in other comprehensive income on the effective portion of cash flow hedges	(165)	(252)
Losses (gains) reclassified to net income	100	232
Other comprehensive (loss) income balance at the end of the year	$ (36)	$ 29

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. 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.

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 $(61) million and $(83) million at December 31, 2006 and 2005, respectively.

The estimated amount of existing gains that are reported in accumulated other comprehensive income at December 31, 2006 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 $13 million.

The Company has derivative instruments that do not qualify for hedge accounting treatment. These derivatives include interest and equity rate options, 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. The notional value of derivatives that do not qualify for hedge accounting treatment (excluding ESI discussed below) was $23,130 million and $15,517 million at December 31, 2006 and 2005, respectively. For the years ended December 31, 2006 and 2005, the Company recognized as net investment gains (losses) in the Consolidated Statement of Income $198 million and $(167) million, respectively, for changes in fair value related to these 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, 2006 and 2005, 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 12 - Debt). The counterparty to the agreement is CS. The agreements contain embedded derivatives and the Company has assessed that the economic characteristics of the derivatives (a series of European style put and call options) were not clearly and closely related to those of the host contract and determined that a separate instrument with the same terms would qualify as a derivative instrument. In accordance with GAAP guidance, the embedded derivatives were separated from the host contract and accounted for as stand-alone derivatives. The notional value of the ESI derivatives that did not qualify for hedge accounting treatment was $1,158 million at December 31, 2006 and 2005. For the years ended December 31, 2006 and 2005, the change in fair value of the embedded derivatives resulted in the Company recording an after-tax accounting gain (loss) of $156 million and $(512) million, respectively, which is included in the accompanying Consolidated Statement of Income. At December 31, 2006 and 2005, the total liability related to these embedded derivatives totaled $754 million and $994 million, respectively, and are included in other liabilities on the accompanying Consolidated Balance Sheet. The derivative performed as expected on an economic basis at December 31, 2006 and 2005. The Company's obligation associated with these embedded derivatives is fully collateralized by its investment in ESI. In 2005, because the Company's investment in ESI was valued using the equity method of accounting, the derivatives did not qualify for hedge accounting treatment. Accordingly, changes in the fair value of the embedded derivatives were recorded through earnings, while the change in the actual fair value of the underlying investment in ESI shares was not recognized through net income or equity. As discussed in Note 6, effective May 31, 2006, the Company changed its method of accounting for ESI from the equity method to SFAS 115 trading with the change in the fair value recorded in net investment gains in the accompanying Consolidated Statement of Income. Under SFAS 149, the embedded derivative continues to not qualify for hedge accounting.

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, 2006, the derivatives were calculated using an average of the fourth and fifth year swap interest rates of 5.09% and a one and two year swap interest rate of 5.24% for SAILS and SAILS II, respectively. The implied Put and Call volatility was 39.20% and 36.90% for SAILS, respectively and 42.10% and 40.10% for SAILS II, respectively. At December 31, 2005, the derivatives were calculated using an average of a 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.

NOTE 15- COMMITMENTS AND CONTINGENCIES

Litigation

The Company and/or its subsidiaries are defendants in individual and/or alleged class action suits arising from their agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, employment and/or other operations, including actions involving retail sales practices. The Company is also a defendant in a suit regarding employee and agent benefits where a portion of the case, specifically the breach of fiduciary claims, has been certified as a class action by agreement of the parties. The remainder of the claims in that suit have not been certified. Most of the actions seek substantial or unspecified compensatory and punitive damages. The Company and/or its subsidiaries are also from time to time involved in various governmental, administrative, and investigative proceedings and inquiries.

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

Assessments

Most of the jurisdictions in which the Company is licensed to transact business require life insurers to participate in guaranty associations which are organized to pay contractual benefits pursuant to insurance policies issued by impaired, insolvent or failed life insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed life insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets. The Company is not aware of, nor has it received notification of any significant insolvency by insurance companies.

Guarantee

In the normal course of business NYL International established a Trust for the benefit of one of its subsidiaries, which provides an indemnity to a third party trustee. The Company has agreed to hold the trustee harmless against any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the administration of the Trust. Since this indemnity is not subject to a limitation with respect to an amount, the Company does not believe that it is possible to determine the maximum potential amount due under this indemnity in the future. Management believes that the likelihood of a material effect is not reasonably likely should such a loss be incurred. The term of the indemnity is through December 31, 2009.

Loaned Securities and Repurchase Agreements

The Company participates in securities lending for the purpose of enhancing income on certain securities held. As of December 31, 2006 and 2005, $3,501 million and $3,191 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, 2006 and 2005, the Company recorded cash collateral received under these agreements of $3,640 million and $3,194 million, respectively, and established a corresponding liability for the same amount. The Company also holds collateral in the form of securities having a market value of $52 million and $70 million at December 31, 2006 and 2005, respectively, which is not included on the accompanying Consolidated Balance Sheet.

Following the entering into of the SAILS and SAILS II agreements with CS described in Note 12 - Debt, the Company agreed to lend CS up to 9 million and 11 million shares of ESI from the shares of common stock that were pledged as collateral for each transaction. The carrying value of the 20 million shares pledged as collateral that can be sold or repledged totaled $1,432 million and $198 million at December 31, 2006 and 2005, respectively. These transactions are generally collateralized with the right of offset against the Company's liabilities to CS, and to the extent the right of offset does not provide sufficient collateral, CS provides additional collateral which consists of US Government Securities, letters of credit or cash. As of December 31, 2006, CS had borrowed 18.64 million shares with a market value equivalent to the carrying amount of $1,335 million. As of December 31, 2005, CS had borrowed 18.64 million shares, with a market value of $1,562 million and a carrying amount of $184 million. The carrying amount of the borrowed shares at December 31, 2005 reflect the investment in ESI under the equity method of accounting, before the change in methodology to market value accounting.

The Company enters into agreements to purchase and resell securities, and agreements to sell and repurchase securities for the purpose of enhancing income on the securities portfolio. At December 31, 2006 and 2005, the Company had agreements to purchase and resell securities totaling $1,318 million and $1,280 million at an average coupon rate of 5.26% and 4.22%, respectively. At December 31, 2006, the Company did not have any agreements to sell and repurchase securities. At December 31, 2005, the Company had agreements to sell and repurchase securities totaling $244 million at an average coupon rate of 4.22%. 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 with an offsetting collateral liability. The liability reported on the accompanying Consolidated Balance Sheet (included in other liabilities) approximates fair value.

Lease Commitments

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

Future minimum lease payments under non-cancelable operating leases with original or remaining lease terms in excess of one year at December 31, 2006 were as follows (in millions):

	Real Property	Equipment	Total
2007	$ 111	$ 25	$ 136
2008	104	17	121
2009	92	10	102
2010	85	-	85
2011	65	-	65
Over 5 years	162	-	162
Total	619	52	671
Less future sublease rental receipts	4	-	4
Total	$ 615	$ 52	$ 667

For the years ended December 31, 2006 and 2005 rent expense was $154 million and $145 million, respectively.

NOTE 16 - RELATED PARTY TRANSACTIONS

Company Managed Mutual Funds

NYLIM Holdings, through its subsidiaries, is responsible for providing investment advisory and certain related administrative services to the MainStay Funds, MainStay VP Series Fund, Inc., Eclipse Funds, Eclipse Funds, Inc. (formerly The MainStay Institutional Funds, Inc.) and the ICAP 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 $336 million and $326 million for the years ended December 31, 2006 and 2005, respectively, and are included in other income in the accompanying Consolidated Statement of Income. The receivable balance at December 31, 2006 and 2005 was $37 million and $35 million, respectively and is included in other assets in the accompanying Consolidated Balance Sheet.

Other Transactions

As of December 31, 2006, an executive of the Company was a director of ESI. ESI provides the majority of the prescription drug administrative services for the Company. Such arrangements are entered into on terms comparable to those that would be available to unrelated third parties.

NOTE 17- SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid were $710 million and $185 million for the years ended December 31, 2006 and 2005, respectively.

Interest paid was $174 million and $164 million for the years ended December 31, 2006 and 2005, respectively.

Non-cash transactions during the year:

Non-cash investing transactions were $39 million and $64 million for the years ended December 31, 2006 and 2005, respectively.