

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

**DECEMBER 31, 2003 and 2002**

**Report of Independent Auditors**

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

In our opinion, the accompanying consolidated balance sheet and 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, 2003 and 2002, 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, which 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.

*PricewaterhouseCoopers LLP*

February 6, 2004

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET**

	<b>December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(in millions)</b>	
<b>ASSETS</b>		
Fixed maturities		
Available for sale, at fair value	\$88,050	\$76,901
Held to maturity, at amortized cost	699	466
Trading securities, at fair value	1,281	944
Equity securities		
Unaffiliated, available for sale, at fair value	3,166	2,526
Affiliated	214	253
Trading securities, at fair value	81	-
Mortgage loans	10,290	10,068
Policy loans	6,343	6,267
Other long-term investments	3,826	2,696
<b>Total investments</b>	<u>113,950</u>	<u>100,121</u>
Cash and cash equivalents	5,111	6,650
Deferred policy acquisition costs	4,178	3,812
Investment income due and accrued	1,286	1,204
Goodwill	460	497
Other assets	2,720	4,141
Separate account assets	16,994	12,915
<b>Total assets</b>	<u>\$144,699</u>	<u>\$129,340</u>
<b>LIABILITIES AND EQUITY</b>		
Policyholders' account balances	\$47,311	\$40,886
Future policy benefits	49,762	47,503
Dividends payable to policyowners	1,142	1,063
Policy claims	648	579
Debt	2,950	2,602
Other liabilities	9,143	8,974
Separate account liabilities	16,896	12,822
<b>Total liabilities</b>	<u>127,852</u>	<u>114,429</u>
Minority interest	493	306
<b>Equity</b>		
Accumulated other comprehensive income	1,774	1,145
Retained earnings	14,580	13,460
<b>Total equity</b>	<u>16,354</u>	<u>14,605</u>
<b>Total liabilities and equity</b>	<u>\$144,699</u>	<u>\$129,340</u>

See accompanying notes to consolidated financial statements

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**

	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(in millions)</b>	
<b>Revenue</b>		
Premiums	\$7,030	\$7,017
Fees-universal life and annuity policies	615	577
Net investment income	6,268	5,782
Net investment gains (losses)	525	(254)
Other income	564	580
Total revenue	15,002	13,702
<b>Expenses</b>		
Interest credited to policyholders' account balances	2,056	2,041
Policyholder benefits	4,465	4,132
Increase in liabilities for future policy benefits	2,577	2,833
Operating expenses	2,953	2,315
Dividends to policyholders	1,388	1,409
Total expenses	13,439	12,730
Income from operations before income taxes and minority interest	1,563	972
Income tax expense (benefit)	395	(54)
Income from operations before minority interest	1,168	1,026
Minority interest expense	(48)	(10)
<b>Net income</b>	<b>\$1,120</b>	<b>\$1,016</b>

See accompanying notes to consolidated financial statements

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**Consolidated Statement of Equity**  
**Years Ended December 31, 2003 and 2002**  
(in millions)

	<u>Accumulated Other Comprehensive Income (Loss)</u>					<u>Retained Earnings</u>	<u>Total Equity</u>
	<u>Foreign Currency Translation Adjustment</u>	<u>Net Unrealized Investment Gains</u>	<u>Minimum Pension Liability Adjustment</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>			
<b>Balance, December 31, 2001</b>	\$ (50)	\$ 697	\$ (3)	\$ 644	\$ 12,444	<u>\$ 13,088</u>	
Comprehensive income:							
Net income					1,016	<u>1,016</u>	
Other comprehensive income, net of tax :							
Change in foreign currency translation adjustment	(125)			(125)		(125)	
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		623		623		623	
Minimum pension liability adjustment			3	3		<u>3</u>	
Other comprehensive income						<u>501</u>	
Total comprehensive income						<u>1,517</u>	
<b>Balance, December 31, 2002</b>	<u>(175)</u>	<u>1,320</u>	<u>-</u>	<u>1,145</u>	<u>13,460</u>	<u><b>14,605</b></u>	
Comprehensive income:							
Net income					1,120	<u>1,120</u>	
Other comprehensive income, net of tax :							
Change in foreign currency translation adjustment	(35)			(35)		(35)	
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		676		676		676	
Minimum pension liability adjustment			(12)	(12)		<u>(12)</u>	
Other comprehensive income						<u>629</u>	
Total comprehensive income						<u>1,749</u>	
<b>Balance, December 31, 2003</b>	<u><b>\$ (210)</b></u>	<u><b>\$ 1,996</b></u>	<u><b>\$ (12)</b></u>	<u><b>\$ 1,774</b></u>	<u><b>\$ 14,580</b></u>	<u><b>\$ 16,354</b></u>	

See accompanying notes to consolidated financial statements

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

	<b>Year Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(in millions)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 1,120	\$ 1,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	(13)	(250)
Net capitalization of deferred policy acquisition costs	(490)	(773)
Universal life and annuity fees	(309)	(272)
Interest credited to policyholders' account balances	2,056	2,041
Other policyholders' account balances	13	(7)
Net investment (gains) losses	(525)	254
Equity in earnings of subsidiaries	(32)	(47)
Deferred income taxes	208	51
Other	220	136
Changes in:		
Net separate account assets	51	(2)
Investment income due and accrued	(82)	(39)
Other assets and other liabilities	191	(346)
Trading securities	479	75
Policy claims	69	66
Future policy benefits	2,545	2,865
<b>Net cash provided by operating activities</b>	<b>5,501</b>	<b>4,768</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from:		
Sale of available-for-sale fixed maturities	129,547	72,102
Maturity of available-for-sale fixed maturities	1,155	2,203
Sale of equity securities	1,626	2,115
Repayment of mortgage loans	2,101	1,450
Sale of other invested assets	1,153	655
Cost of:		
Available-for-sale fixed maturities acquired	(140,698)	(81,643)
Held-to-maturity fixed maturities acquired	(310)	(44)
Equity securities acquired	(1,615)	(1,672)
Mortgage loans acquired	(2,342)	(1,907)
Other long term investments acquired	(2,123)	(2,443)
Policy loans	(76)	(100)
Capital expenditures	(24)	(10)
Purchase of subsidiaries, net of cash acquired	-	16
Securities sold under agreements to repurchase (net)	(774)	781
Increase in loaned securities	719	870
Other	7	-
<b>Net cash used in investing activities</b>	<b>(11,654)</b>	<b>(7,627)</b>
<b>Cash Flows from Financing Activities:</b>		
Policyholders' account balances:		
Deposits	12,859	11,797
Withdrawals	(8,281)	(7,973)
Net transfers from the separate accounts	(258)	(585)
Net contributions from limited partners	121	142
Proceeds from debt	179	678
<b>Net cash provided by financing activities</b>	<b>4,620</b>	<b>4,059</b>
Effect of exchange rate changes on cash and cash equivalents	(6)	(15)
Net increase (decrease) in cash and cash equivalents	(1,539)	1,185
Cash and cash equivalents, beginning of year	6,650	5,465
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,111</b>	<b>\$ 6,650</b>

See accompanying notes to consolidated financial statements

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

**December 31, 2003 and 2002**

**NOTE 1 - NATURE OF OPERATIONS**

New York Life Insurance Company and its subsidiaries (“the Company”) offer a wide range of insurance and investment products and services including life and health insurance, long term care, annuities, pension products, mutual funds, and other investments and investment advisory services. The Company is comprised of four primary business operations: Life and Annuity, Investment Management, International operations and Special Markets. Life and Annuity operations are conducted primarily through New York Life Insurance Company (“NYLIC”), the parent company, and its direct wholly owned 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 direct wholly owned subsidiary, New York Life Investment Management Holdings LLC (“NYLIM Holdings”). The Company markets individual insurance and investment products in Mexico, Taiwan, Hong Kong, India, Philippines, South Korea, Argentina and Thailand through New York Life International, LLC and New York Life International, Inc. (collectively “NYL International”), both direct wholly owned subsidiaries of NYLIC. NYLIC also markets individual life insurance in China through its joint venture, Haier New York Life Insurance Company Limited. In addition, NYL International has representative offices in the People’s Republic of China and Vietnam, and investment funds in India and China. Special Markets conducts its business operations through NYLIC. 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: principally NYLIAC, NYLIFE of Arizona, NYLIFE LLC, NYL International and NYLIM Holdings. All intercompany transactions have been eliminated in consolidation. The New York State Insurance Department (the “Department”) recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its policyholders. In addition, the Company is also subject to reporting requirements with the Delaware and Arizona Insurance Departments. No consideration is given by any of the State Insurance Departments to financial statements prepared in accordance with GAAP in making such determinations.

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

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

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

	<u>2003</u>	<u>2002</u>
Consolidated GAAP net income	\$1,120	\$1,016
Adjustments to GAAP basis for:		
Removal of amortization of deferred acquisition costs ("DAC")	832	473
Re-estimation of future policy benefits and policyholder account balances	140	23
Removal of deferred income taxes	255	124
Policyholder dividends	11	93
Inclusion of interest maintenance reserve ("IMR") amortization	46	74
Removal of capitalization of DAC	(1,300)	(1,228)
Removal of statutory subsidiaries' net loss	16	83
Removal of GAAP net investment (gains) losses	(525)	254
Other	<u>211</u>	<u>16</u>
<b>Statutory net gain</b>	806	928
Statutory net realized capital losses	<u>(121)</u>	<u>(400)</u>
<b>Statutory net income *</b>	<b><u>\$685</u></b>	<b><u>\$528</u></b>

\* Statutory net income includes the net income of NYLIC only, and excludes the net income (losses) of its domestic insurance subsidiaries of \$10 million and \$(104) million for the years ended December 31, 2003 and 2002, respectively.

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

	<u>2003</u>	<u>2002</u>
Consolidated GAAP equity	\$16,354	\$14,605
Adjustments to GAAP basis for:		
Removal of capitalization of DAC	(4,178)	(3,812)
Establishment of IMR	(396)	(221)
Policyholder dividends	(191)	(204)
Removal of unrealized gains on investments	(5,238)	(4,775)
Removal of statutory non-admitted assets	(1,274)	(1,206)
Deferred tax asset	771	101
Removal of capitalization of goodwill	(408)	(428)
Carrying value of investment in Express Scripts, Inc. ("ESI")	652	507
Re-estimation of future policy benefits and policyholder account balances	3,213	3,391
Removal of non-vested employee benefit liabilities	410	399
Inclusion of surplus notes, net of indemnification reserve	1,015	275
Other	<u>80</u>	<u>147</u>
<b>Statutory capital**</b>	<b><u>\$10,810</u></b>	<b><u>\$8,779</u></b>

\*\* Statutory capital includes statutory surplus and the asset valuation reserve ("AVR") on a consolidated basis of the Company. NYLIC's statutory surplus was \$9,137 million and \$7,985 million at December 31, 2003 and 2002, respectively. AVR for NYLIC and its domestic insurance subsidiaries was \$1,673 million and \$794 million at December 31, 2003 and 2002, respectively.

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

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

### **Investments**

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

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

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

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

The cost basis of fixed maturities and equity securities are adjusted for impairments in value deemed to be other than temporary, with the associated realized loss reported in net investment gains (losses) in the accompanying Consolidated Statement of Income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) whether the decline is substantial; 2) the amount of time that the fair value has been less than cost; 3) the financial condition and near-term prospects of the issuer; and 4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

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

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

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

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

Other long-term investments consist primarily of direct investments in limited partnerships, limited liability companies, real estate and collateralized third party commercial loans. Investments in limited partnerships and limited liability companies are carried on the equity method of accounting. Investments in real estate, which the Company has the intent to hold for the production of income, is 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 valuation allowance and net of any deferred fees or costs on originated loans or unamortized premiums or discounts on purchased loans.

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

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

## **Loaned Securities and Repurchase Agreements**

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

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

## **Deferred Policy Acquisition Costs**

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

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

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

## **Goodwill and Other Intangible Assets**

An intangible asset with a finite life is amortized over its useful life to the reporting entity; goodwill, which is an intangible asset with an indefinite useful life is not amortized. All indefinite lived intangible assets are tested for impairment. The Company ceased the amortization of goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142. In 2003 and 2002, the Company completed the regular annual impairment tests of goodwill. During 2003 as a result of the test, goodwill was written down by \$22 million for certain minority owned subsidiaries of NYL International. The fair value of the companies was determined based on independent third party assessments.

## **Other Assets and Other Liabilities**

Other assets primarily consist of amounts receivable for undelivered securities, prepaid benefit costs, furniture and equipment, capitalized software and web development costs, reinsurance recoverables, 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 net deferred tax liabilities. (During 2002 the Company recorded a deferred tax asset, which was included in other assets in the accompanying Consolidated Balance Sheet.)

## **Recognition of Income and Related Expenses**

Premiums from traditional life policies, term life policies, annuity policies with life contingencies and health contracts are recognized as income when due. The associated benefits and expenses are matched with income so as to result in the recognition of profits over the life of the contracts. This match is accomplished by providing for liabilities for future policy benefits (as discussed in Note 8 – Policyholders' Liabilities) and the deferral and subsequent amortization of policy acquisition costs.

Amounts received under universal life-type contracts and investment contracts are reported as deposits to policyholders' account balances (as discussed in Note 8 – Policyholders' Liabilities). Revenues from these contracts consist of amounts assessed during the period for mortality and expense risk, policy administration and surrender charges, and are included as fee income in the Consolidated Statement of Income. Amounts previously assessed to compensate the Company for services to be performed over future periods are deferred and recognized into income over the period benefited, using the same assumptions and factors used to amortize deferred policy acquisition costs. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholders' account balances.

Premiums for contracts with a single premium or a limited number of premium payments due over a significantly shorter period than the total period over which benefits are provided, are recorded as income when due. Any excess profit is deferred and recognized as income in a

constant relationship to insurance in force and, for annuities, the amount of expected future benefit payments.

### **Fee Income**

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

### **Policyholders' Dividends**

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

### **Federal Income Taxes**

Current Federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. Deferred Federal income tax assets ("DTAs") and liabilities ("DTLs") are recognized for expected future tax consequences of temporary differences between GAAP and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby GAAP and tax balance sheets are compared. Deferred income tax assets and liabilities are recognized for the future tax consequence of temporary differences between financial statement carrying amounts and income tax bases of assets and liabilities.

A provision is made for Federal income taxes estimated to be payable, including the equity base tax. An estimated Differential Earnings Rate ("DER") is used to determine the equity base tax for that year (See Note 9 – Federal Income Taxes regarding the 2001-2003 suspension of the equity base tax enacted by Federal legislation in March 2002). Adjustments to such estimates, including those related to differences between the estimated and final DER, are recorded in income tax expense (benefit) in the accompanying Consolidated Statement of Income.

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

## **Separate Accounts**

The Company has established non-guaranteed, guaranteed and registered separate accounts with varying investment objectives which are segregated from the Company's general account and are maintained for the benefit of separate account policyholders. Separate account assets are stated at fair value. The liability for separate accounts represents policyholders' interests in the separate account assets. For its non-guaranteed and registered separate accounts, these liabilities include accumulated net investment income and realized and unrealized gains and losses on those assets, and generally reflect fair value. For its guaranteed, non-registered separate accounts, the liability represents amounts due to policyholders pursuant to the terms of the contract.

Guaranteed separate accounts maintained on a fair value basis provide a guarantee of principal and interest for contracts held to maturity. Prior to maturity, payments are made to contract holders at separate account fair value. Interest rates on these contracts may be adjusted annually, or more frequently as required by each contract. At maturity, if the fair value of the investment of an individual contract holder is below the minimum guaranteed amount, the contract holder may receive the guaranteed amount immediately or as an installment payout depending on the terms of the contract.

## **Fair Value of Financial Instruments**

Fair values of various assets and liabilities are included throughout the notes to the consolidated financial statements. Specifically, fair value disclosure of fixed maturities, equity securities, short-term investments, cash equivalents, mortgage loans and policy loans are reported in Note 2 - Significant Accounting Policies and Note 4 - Investments. Fair values for investment contracts are reported in Note 8 - Policyholders' Liabilities. Fair values for debt are included in Note 11- Debt. Fair values for repurchase agreements are included in Note 14 - Commitments and Contingencies.

## **Business Risks and Uncertainties**

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

Mortgage loans, many of which have balloon payment maturities, and equity real estate, are generally illiquid and carry a greater risk of investment losses than investment grade fixed maturities. Furthermore, in periods of declining interest rates, bond calls and mortgage prepayments generally increase, resulting in reinvestment at then current market rates.

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

Credit defaults and impairments may result in writedowns in the value of fixed income and equity securities held by the Company. Recent corporate and accounting scandals continue to increase the risks of defaults on fixed maturity securities. 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 such securities, as well as their related values. In addition, the amortization of market premium and accretion of market discount for mortgage-backed securities is based on historical experience and estimates of future payment experience underlying mortgage loans. Actual prepayment timing will differ from original estimates and may result in material adjustments to asset values and amortization or accretion recorded in future periods.

Weak equity market performance may adversely affect sales of variable annuities, mutual funds or investment management products, cause potential purchasers of the Company's products to refrain from new or additional investments, and may cause current investors to withdraw from the market or reduce their rates of ongoing investment.

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

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

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

The Company issues certain variable products with various types of guaranteed minimum death benefit features. The Company currently reserves for the expected payments resulting from certain of 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 during the period when account values are less than guaranteed amounts.

As a mutual life insurance company, the Company is subject to a tax on its equity base ("EBT"). The EBT has been suspended for 3 years beginning with the 2001 tax year. As a result of the suspension, in 2002 the Company released the prior accrual held for the EBT. In the absence of any new legislation extending the suspension or eliminating this tax, the Company is subject to this tax beginning in 2004.

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. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, includes these costs in the accrual.

## **Foreign Currency Translation**

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

### **NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2003, the FASB issued Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 requires a variable interest entity ("VIE") to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the entity's residual returns. On December 17, 2003, the FASB issued FIN 46-R ("Revised Interpretation" of FIN 46), which amended certain aspects of FIN No. 46. Accordingly, for all VIEs created before December 31, 2003, the Company will be required to adopt FIN 46-R as of January 1, 2005. The Company has identified four VIEs at December 31, 2003 that it may be required to consolidate when the new rule becomes effective. One of these entities was consolidated in 2003 under existing accounting rules resulting in \$403 million of assets being reflected in the 2003 accompanying Consolidated Balance Sheet. These four entities were established to facilitate securitization transactions. These entities had total assets of \$1,066 million and \$684 million at December 31, 2003 and 2002, respectively. There is no economic recourse to the Company for the debt obligations issued by these entities. The maximum economic loss exposure is limited to the Company's debt and equity investments, totaling \$72 million and \$56 million at December 31, 2003 and 2002, respectively.

In April 2003, the FASB issued SFAS No. 133 Implementation Issue No. "B36", "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments". B36 indicates that certain reinsurance arrangements, and other similar contracts in which funds are withheld by the ceding insurer and a return on those withheld funds is paid based on the ceding company's return on certain of its investments, generally contain an embedded derivative feature that should be separately identified and valued. While not expected to be material, the Company is in the process of determining the impact of the adoption of B36 on its reinsurance contracts and participating pension contracts.

In July 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long Duration Contracts and for Separate Accounts" ("SOP 03-1"). SOP 03-1 provides guidance on a number of topics, including separate account presentation, interest in separate accounts, liability valuation, returns based on a contractually referenced pool of assets or index and accounting for contracts that contain death or other insurance benefit features.

SOP 03-1 will be effective for the Company's financial statements on January 1, 2004. The effect of initially adopting SOP 03-01 will be reported as a cumulative effect of a change in accounting principle. The Company is currently completing an assessment of the impact of the SOP on its operations; however, we do not believe that the implementation of SOP 03-01 will have a material effect on the Company's consolidated financial position.

## NOTE 4 – INVESTMENTS

### Fixed Maturities

The amortized cost and estimated fair value of fixed income investments as of December 31, 2003 and 2002 by contractual maturity were as follows (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.

	2003		2002	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b><u>Available for Sale</u></b>				
Due in one year or less	\$3,294	\$3,315	\$2,700	\$ 2,722
Due after one year through five years	13,716	14,556	12,082	12,664
Due after five years through ten years	20,870	22,271	17,073	18,205
Due after ten years	22,553	24,505	19,809	21,546
Mortgage and Asset Backed Securities:				
U.S. government or U.S. government agency	750	788	1,484	1,560
Other mortgage-backed securities	13,873	14,503	13,311	14,221
Other asset-backed securities	7,900	8,012	5,856	5,983
Other	92	100	-	-
Total Available for Sale	<u>\$83,048</u>	<u>\$88,050</u>	<u>\$72,315</u>	<u>\$76,901</u>

	2003		2002	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
<b><u>Held to Maturity</u></b>				
Due in one year or less	\$16	\$16	\$10	\$10
Due after one year through five years	132	142	99	107
Due after five years through ten years	85	93	54	61
Due after ten years	466	518	303	329
Total Held to Maturity	<u>\$699</u>	<u>\$769</u>	<u>\$466</u>	<u>\$507</u>

At December 31, 2003 and 2002, the distribution of gross unrealized gains and losses on investments in fixed maturities was as follows (in millions):

<u>Available for Sale</u>	2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government corporations and agencies	\$ 2,107	\$86	\$3	\$2,190
U.S. agencies, state, and municipal	6,888	628	7	7,509
Foreign governments	1,296	88	11	1,373
Corporate	51,447	3,797	328	54,916
Mortgage-backed securities	13,829	682	52	14,459
Asset-backed securities	7,390	160	48	7,502
Other	<u>91</u>	<u>10</u>	<u>-</u>	<u>101</u>
Total Available for Sale	<u>\$83,048</u>	<u>\$5,451</u>	<u>\$449</u>	<u>\$88,050</u>

<u>Held to Maturity</u>	2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Foreign governments	\$640	\$69	\$2	\$707
Corporate	54	2	-	56
Other	<u>5</u>	<u>1</u>	<u>-</u>	<u>6</u>
Total Held to Maturity	<u>\$699</u>	<u>\$72</u>	<u>\$2</u>	<u>\$769</u>

<u>Available for Sale</u>	2002			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government corporations and agencies	\$ 2,679	\$ 167	\$ 1	\$ 2,845
U.S. agencies, state, and municipal	8,172	835	1	9,006
Foreign governments	1,008	91	1	1,098
Corporate	41,563	3,322	864	44,021
Mortgage-backed securities	13,037	916	5	13,948
Asset-backed securities	<u>5,856</u>	<u>213</u>	<u>86</u>	<u>5,983</u>
Total Available for Sale	<u>\$72,315</u>	<u>\$5,544</u>	<u>\$958</u>	<u>\$76,901</u>

<u>Held to Maturity</u>	2002			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Foreign governments	\$441	\$39	\$-	\$480
Corporate	20	1	-	21
Other	<u>5</u>	<u>1</u>	<u>-</u>	<u>6</u>
Total Held to Maturity	<u>\$466</u>	<u>\$41</u>	<u>\$-</u>	<u>\$507</u>

At December 31, 2003 and 2002, the Company has outstanding contractual obligations to acquire additional private placement securities amounting to \$83 million and \$326 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.

## Equity Securities

At December 31, 2003 and 2002, the distribution of gross unrealized gains and losses on unaffiliated available for sale equity securities was as follows (in millions):

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
2003	\$2,645	\$610	\$89	\$3,166
2002	2,539	143	156	2,526

## 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, 2003 and 2002 is estimated to be \$11,266 million and \$11,249 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. As mortgage loans are generally intended to be held-to-maturity, fair value does not necessarily represent the values for which those loans could have been sold for at December 31, 2003 or 2002.

At December 31, 2003 and 2002, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to \$241 million and \$320 million, respectively, at fixed and floating interest rates ranging from 2.6% to 9.5%, and 3.7% 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, 2003 and 2002, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	2003		2002	
	Carrying Value	% of Total	Carrying Value	% of Total
<b>Property Type:</b>				
Office building	\$4,046	39.3%	\$3,905	38.7%
Retail facilities	2,381	23.1%	2,341	23.3%
Industrial	1,517	14.7%	1,297	12.9%
Apartment buildings	1,252	12.2%	1,269	12.6%
Residential	934	9.1%	1,086	10.8%
Other	160	1.6%	170	1.7%
Total	<u>\$10,290</u>	<u>100.0%</u>	<u>\$10,068</u>	<u>100.0%</u>

	2003		2002	
	Carrying Value	% of Total	Carrying Value	% of Total
<b>Geographic Location:</b>				
Central	\$3,068	29.8%	\$2,849	28.3%
South Atlantic	2,608	25.3%	2,582	25.6%
Middle Atlantic	2,125	20.7%	2,164	21.5%
Pacific	1,684	16.4%	1,654	16.4%
New England	729	7.1%	727	7.2%
Other	76	0.7%	92	1.0%
Total	<u>\$10,290</u>	<u>100.0%</u>	<u>\$10,068</u>	<u>100.0%</u>

The activity in the mortgage loan specific and general reserves as of December 31, 2003 and 2002 is summarized below (in millions):

	<u>2003</u>	<u>2002</u>
Beginning balance	\$33	\$20
Additions charged to operations	2	13
Ending balance	<u>\$35</u>	<u>\$33</u>

### Other Long-term Investments

The components of other long-term investments as of December 31, 2003 and 2002 were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Limited partnerships/Limited liability companies	\$2,373	\$1,444
Real estate	345	442
Collateralized third party loans	883	598
Derivatives	212	168
Other	13	44
Total other long-term investments	<u>\$3,826</u>	<u>\$2,696</u>

Net unrealized investment gains (losses) on limited partnerships and limited liability companies aggregated \$333 million and \$(208) million for the years ended December 31, 2003

and 2002, 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, 2003 and 2002 was \$109 million and \$113 million, respectively. Depreciation expense totaled \$11 million for the years ended December 31, 2003 and 2002, respectively, and was recorded as a component of net investment income in the accompanying Consolidated Statement of Income.

Unfunded commitments on limited partnership and limited liability corporations amounted to \$972 million and \$840 million for December 31, 2003 and 2002, respectively.

### Restricted Assets and Special Deposits

Assets of \$264 million and \$265 million at December 31, 2003 and 2002, respectively, were on deposit with governmental authorities or trustees as required by certain state insurance and foreign government laws and are included within related invested assets in the accompanying Consolidated Balance Sheet.

### NOTE 5 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2003 and 2002 were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Fixed maturities	\$5,013	\$4,757
Equity securities	102	89
Mortgage loans	738	774
Real estate	71	79
Policy loans	414	438
Derivatives	136	70
Limited partnerships	2	(133)
Other	<u>95</u>	<u>56</u>
Gross investment income	6,571	6,130
Investment expenses	<u>(303)</u>	<u>(348)</u>
Net investment income	<u>\$6,268</u>	<u>\$5,782</u>

For the years ended December 31, 2003 and 2002, net investment gains (losses) on sales computed under the specific identification method were as follows (in millions):

	<u>2003</u>		<u>2002</u>	
	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Fixed maturities	\$946	\$(613)	\$ 794	\$ (961)
Equity securities	204	(137)	186	(348)
Mortgage loans	18	(27)	4	(16)
Real estate	13	(1)	39	(2)
Other long-term investments	154	(77)	12	(7)
Derivatives instruments	429	(240)	236	(83)
Other	<u>35</u>	<u>(179)</u>	<u>23</u>	<u>(131)</u>
Subtotal	<u>\$1,799</u>	<u>\$(1,274)</u>	<u>\$1,294</u>	<u>\$(1,548)</u>
Net investment gains (losses)		<u>\$525</u>		<u>\$(254)</u>

Effective January 1, 2003 the Company transferred all other-than-temporarily impaired securities to a trading portfolio at fair value. Accordingly, for the year 2003 the trading portfolio required a mark-to-market adjustment through net investment gains (losses) to reflect any subsequent decline or increase in fair market value. The net gain released from unrealized gains in accumulated other comprehensive income in the accompanying Consolidated Balance Sheet and reflected in net investment gain (losses) in the accompanying Consolidated Statement of Income at the date of transfer amounted to \$8 million.

On April 1, 2002, the Company transferred its convertible bond and preferred stock portfolios from available-for-sale into the trading category. The net gain released from unrealized gains in accumulated other comprehensive income in the accompanying Consolidated Balance Sheet and reflected in net investment gains (losses) in the accompanying Consolidated Statement of Income at the date of transfer amounted to \$54 million.

The gross gains and losses on trading securities amounted to \$274 million and \$262 million, respectively, for the year ended December 31, 2003. The gross gains and losses on trading securities amounted to \$31 million and \$106 million, respectively, for the period April 1, 2002 through December 31, 2002. Trading gains and losses are included in net investment gains (losses) in the accompanying Consolidated Statement of Income.

Proceeds from the sale of available-for-sale fixed maturities were \$128,307 million and \$72,533 million for the years ended December 31, 2003 and 2002, respectively. Realized gains on such sales were \$716 million and \$794 million for the years ended December 31, 2003 and 2002, respectively; and realized losses were \$445 million and \$949 million, respectively.

Related losses from other than temporary impairments in fixed maturities (included in gross investment losses on fixed maturities above) were \$93 million and \$324 million for 2003 and 2002, respectively. Related losses from other than temporary impairments in equity securities were included in gross realized losses on equity securities (included in gross investment losses on equity securities above) and were \$52 million and \$21 million for 2003 and 2002, respectively.

The following table presents the Company's gross unrealized losses and fair values for fixed maturities and equities into two categories: (1) when the estimated fair value has declined and remained below amortized cost for a period of less than twelve months, and (2) when the estimated fair value has declined and remained below cost for a period of greater than twelve months, at December 31, 2003 (in millions):

	Less than 12 months		Greater than 12 months		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
<b>Fixed Maturities</b>						
U.S. Treasury and U.S. Government, Corporations and agencies	\$443	\$3	\$ -	\$ -	\$443	\$3
U.S. agencies, state, and municipal	299	7	-	-	299	7
Foreign governments	323	8	42	5	365	13
Corporate	6,626	213	1,409	115	8,035	328
Mortgage-backed securities	2,335	47	53	5	2,388	52
Asset-backed securities	<u>1,454</u>	<u>26</u>	<u>300</u>	<u>22</u>	<u>1,754</u>	<u>48</u>
<b>Total fixed maturities</b>	<u>11,480</u>	<u>304</u>	<u>1,804</u>	<u>147</u>	<u>13,284</u>	<u>451</u>
<b>Equities (Unaffiliated)</b>						
Common stock	161	6	295	81	456	87
Preferred stock	<u>3</u>	<u>-</u>	<u>13</u>	<u>2</u>	<u>16</u>	<u>2</u>
<b>Total equities</b>	<u>164</u>	<u>6</u>	<u>308</u>	<u>83</u>	<u>472</u>	<u>89</u>
<b>Total temporarily impaired securities</b>	<u>\$11,644</u>	<u>\$310</u>	<u>\$2,112</u>	<u>\$230</u>	<u>\$13,756</u>	<u>\$540</u>

For the securities with gross unrealized losses, the decline in fair value is principally related to changes in interest rates and weak economic and market conditions in certain corporate sectors such as airlines, energy and utilities that are now experiencing a gradual rebound in fair value. Recent improvement in fair value for these securities evidences continued recovery as economic and market conditions improve. Refer to Note 2 – Significant Accounting Policies for Investments which discloses the Company’s process for reviewing invested assets for impairments.

### 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 (losses) in the accompanying Consolidated Statement of Income. The amounts for the years ended December 31, 2003 and 2002 are as follows (in millions):

	<u>2003</u>	<u>2002</u>
Net unrealized investment gains, beginning of the year	\$ 1,320	\$ 697
Changes in net unrealized investment gains (losses) attributable to investments:		
Net unrealized investment gains on investments arising during the period	913	2,115
Less: Reclassification adjustments for (gains) losses included in net income	<u>162</u>	<u>217</u>
Change in net unrealized investment gains, net of adjustments	751	1,898
Impact of net unrealized investment gains (losses) on:		
Policyholder account balances	9	(503)
Deferred policy acquisition costs	<u>(84)</u>	<u>(772)</u>
Change in net unrealized investment gains	<u>676</u>	<u>623</u>
Net unrealized investment gains, end of year	<u>\$1,996</u>	<u>\$1,320</u>

Net unrealized gains (losses) on investments arising during the period reported in the above table are net of income tax expense of \$492 million and \$1,139 million for the years ended December 31, 2003 and 2002, respectively.

Reclassification adjustments reported in the above table for the years ended December 31, 2003 and 2002 are net of income tax expense of \$87 million and \$117 million, respectively.

Policyholder account balances reported in the above table are net of income tax expense (benefit) of \$5 million and (\$271) million for the years ended December 31, 2003 and 2002, respectively.

Deferred policy acquisition costs in the above table for the years ended December 31, 2003 and 2002 are net of income tax benefit of \$41 million and \$416 million, respectively.

## **NOTE 6 - SEPARATE ACCOUNTS**

### **Guaranteed Separate Accounts**

The Company currently maintains guaranteed separate accounts with assets of \$3,337 million and \$1,955 million at December 31, 2003 and 2002, respectively. The Company also maintains a guaranteed separate account for its universal life insurance policies with assets of \$723 million and \$719 million at December 31, 2003 and 2002, respectively. The assets in the guaranteed separate accounts are comprised primarily of privately placed securities such as corporate bonds, mortgage backed securities and commercial mortgages, as well as, publicly traded bonds including investment grade corporate, high-yield and treasury bonds. The assets of the guaranteed separate accounts are carried at fair value.

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

The Company currently maintains non-guaranteed, non-registered separate accounts with assets of \$2,059 million and \$1,716 million at December 31, 2003 and 2002, respectively. The assets of these separate accounts, which are carried at fair value, primarily represent investments in public and private equity securities.

The Company also maintains non-guaranteed separate accounts, several of which are registered with the Securities and Exchange Commission (SEC), for its variable deferred annuity and variable life products with assets of \$10,875 million and \$8,525 million at December 31, 2003 and 2002, respectively. The assets of the 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.

## NOTE 7 - DEFERRED POLICY ACQUISITION COSTS

An analysis of deferred policy acquisition costs for the years ended December 31, 2003 and 2002 was as follows (in millions):

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	\$3,812	\$4,229
Current year additions	1,322	1,246
Amortized during year	<u>(832)</u>	<u>(473)</u>
Balance at end of year before related adjustments	4,302	5,002
Adjustment for changes in unrealized investment gains	(125)	(1,187)
Cumulative translation adjustment	<u>1</u>	<u>(3)</u>
Balance at end of year	<u>\$4,178</u>	<u>\$3,812</u>

## NOTE 8 – POLICYHOLDERS’ LIABILITIES

### Policyholders’ Account Balances

Policyholders’ account balances at December 31, 2003 and 2002 were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Deferred annuities	\$15,737	\$13,319
Guaranteed investment contracts	12,538	11,497
Universal life contracts	12,339	10,522
Immediate participation contracts	3,776	2,634
Dividend accumulations	1,485	1,527
Annuities certain	624	633
Other	<u>812</u>	<u>754</u>
Total	<u>\$47,311</u>	<u>\$40,886</u>

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

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, 2003:

<b>Product</b>	<b>Interest Rate</b>	<b>Withdrawal/Surrender Charges</b>
Deferred annuities	3.00% to 4.35%	Surrender charges 0% to 7% for up to 9 years
Guaranteed investment contracts	1.17% 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	4.00% to 7.07%	Various up to 19 years.
Immediate participation contracts	6.64% to 8.64%	Contractually limited or subject to fair value adjustment.
Dividend accumulations	0.50% to 5.00%	Generally, not subject to withdrawal/surrender charges, except for certain contracts where withdrawal/surrender is limited or subject to a fair value adjustment.

The following table discloses the fair values of the Company's investment contracts at December 31, 2003 and 2002 (in millions):

	<u>2003</u>	<u>2002</u>
Deferred annuities	\$15,737	\$13,319
Guaranteed investment contracts	13,753	11,887
Immediate participation contracts	2,759	2,559
Dividend accumulations	1,485	1,527
Annuities certain	730	726
Other	<u>812</u>	<u>754</u>
Total	<u>\$35,276</u>	<u>\$30,772</u>

For deferred annuities, dividend accumulations and other deposit type contracts, account value approximates fair value. For guaranteed investment contracts and annuities certain liabilities, fair values are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For immediate participation 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, 2003 and 2002 were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Life insurance	\$ 39,538	\$ 37,558
Individual annuities	5,421	5,091
Group annuities	3,259	3,341
Other contract liabilities	<u>1,544</u>	<u>1,513</u>
Total future policy benefits	<u>\$ 49,762</u>	<u>\$ 47,503</u>

Participating life insurance contracts represented 78% of total life insurance in force for each year at December 31, 2003 and 2002. Participating life insurance contracts also represented 99% of total life insurance premiums for each of the years ended December 31, 2003 and 2002, respectively.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves at December 31, 2003:

<b>Product</b>	<b>Mortality</b>	<b>Interest Rate</b>	<b>Estimation Method</b>
Traditional life insurance policies	Generally rates guaranteed in calculating cash surrender values.	2% to 5.5%	Net level premium.
Term life insurance policies	Based upon pricing assumptions at time of policy issuance with provision for adverse deviations ("PAD").	2% to 7.7%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD.
Individual payout annuities	Based upon pricing assumptions at time of policy issuance with PAD.	5.75% 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 Death Benefit**

The cumulative guaranteed minimum death benefit ("GMDB") reserve at December 31, 2003 and 2002 was \$29 million and \$55 million, respectively, and is included in future policy benefits in the accompanying Consolidated Balance Sheet.

### **NOTE 9 - FEDERAL INCOME TAXES**

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

	<b><u>2003</u></b>	<b><u>2002</u></b>
Current		
Federal	\$175	\$(112)
State and Local	6	8
Foreign	<u>6</u>	<u>(1)</u>
	<u>187</u>	<u>(105)</u>
Deferred		
Federal	196	41
Foreign	<u>12</u>	<u>10</u>
	<u>208</u>	<u>51</u>
Income tax (benefit) expense	<u>\$395</u>	<u>\$ (54)</u>

The components of the net deferred tax asset/(liability) as of December 31, 2003 and 2002 were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
Policy reserves	\$2,185	\$2,297
Agent & employee benefits	278	233
Net operating losses	169	166
Other reserves	50	71
Investment in foreign subsidiary	52	52
Other deferred tax asset	<u>27</u>	<u>57</u>
Deferred tax assets before valuation allowance	2,761	2,876
Valuation allowance	<u>(18)</u>	<u>(14)</u>
Deferred tax assets	<u>2,743</u>	<u>2,862</u>
Deferred tax liabilities:		
Deferred policy acquisition costs	713	643
Investments	2,069	1,676
Deferred distribution costs	15	25
Other deferred tax liabilities	<u>76</u>	<u>48</u>
Deferred tax liabilities	<u>2,873</u>	<u>2,392</u>
Net deferred tax asset/(liability)	<u>\$ (130)</u>	<u>\$ 470</u>

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes. A valuation allowance is recorded to reduce any portion of the deferred tax asset that is expected to more likely than 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 \$18 million and \$14 million related to foreign net operating loss and foreign tax credit carryforwards at December 31, 2003 and 2002, 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.

Through the period ending December 31, 2001, NYL International's business plan with respect to one of its Mexican subsidiaries provided for current repatriation of the subsidiary's earnings. As such, income taxes on the undistributed earnings were provided by the Company at the applicable Federal income tax rate. Beginning in year 2002, NYL International changed its dividend policy to reflect indefinite permanent reinvestment of its Mexican subsidiary in accordance with a plan of expansion that utilizes the distributable earnings of the subsidiary. Accordingly, income taxes are provided at the applicable statutory local tax rate. For the year ended December 31, 2003 the Company had a deferred tax asset of \$147 million arising in connection with the Mexican subsidiary's net operating losses.

At December 31, 2003 the Company had net operating loss carryforwards of \$535 million. Of the total net operating loss, \$460 million is related to the Mexican subsidiary's net operating losses that will expire between 2005-2013, \$61 million is related to certain other foreign subsidiaries that will expire between 2004-2008, and \$14 million is related to losses generated by

U.S. nonlife subsidiaries that will expire in 2023. A valuation allowance in the amount of \$17 million has been established against the entire deferred tax asset arising from the Company's non-Mexican foreign subsidiaries.

Deferred income taxes are not provided on the undistributed earnings of foreign subsidiaries that are considered to be permanent investments. The Company estimates that, as of December 31, 2003 and 2002 a net Federal income tax liability of approximately \$21 million and \$15 million, respectively would result if these earnings were remitted to the Company.

At December 31, 2003 and 2002 the Company recorded a current income tax receivable of \$20 million, and current income tax payable of \$50 million, respectively, which was included in other assets and other liabilities, respectively, 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 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Statutory Federal income tax rate	35.00%	35.00%
Equity base tax	-	(28.67)
Foreign operations	(2.73)	(6.66)
Tax exempt income	(1.98)	(3.18)
Investment credit	(2.60)	(.23)
Other	<u>(2.45)</u>	<u>(1.84)</u>
Effective tax rate	<u>25.24%</u>	<u>(5.58)%</u>

The Company's Federal income tax returns are routinely examined by the IRS and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 1998. 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.

In March 2002, the Job Creation and Worker Assistance Act of 2002 was passed to provide tax relief and stimulate the economy. This law suspends the Company's equity base tax for the three-year period beginning 2001. The Company had accrued \$118 million in the equity base tax in 2001 prior to passage of this legislation, and this amount is reflected as an adjustment to current income taxes incurred in 2002, a component of income tax expense (benefit) in the accompanying Consolidated Statement of Income.

#### **NOTE 10 – REINSURANCE**

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk. The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable in order to minimize its exposure to loss from reinsurer insolvencies. When necessary, an allowance is recorded for reinsurance the Company cannot collect. Three reinsurance companies account for approximately 50% of the reinsurance ceded at December 31, 2003.

Life insurance reinsured was 32% of total life insurance in-force each year at December 31, 2003 and 2002.

The effects of reinsurance for the years ended December 31, 2003 and 2002 were as follows (in millions):

	<u>2003</u>	<u>2002</u>
Premiums:		
Direct	\$7,293	\$7,333
Assumed	179	116
Ceded	<u>(442)</u>	<u>(432)</u>
Net Premiums	<u>\$7,030</u>	<u>\$7,017</u>
Policyholders' Benefits Ceded	<u>\$ 396</u>	<u>\$ 429</u>
Reinsurance Recoverable	<u>\$ 390</u>	<u>\$ 425</u>

## NOTE 11 – DEBT

For the years ended December 31, 2003 and 2002 the fair value of debt was \$2,994 million and \$2,611 million, respectively. The carrying amount for commercial paper approximates fair value. The fair value of the Company's 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, 2003 and 2002 (in millions):

	<u>2003</u>	<u>2002</u>
Capital Corporation's commercial paper debt issuance, various maturity dates through March 2004, (the weighted average interest rate is approximately 1.11% and 1.47% for 2003 and 2002, respectively)	\$968	\$1,699
Shared Appreciation Income Linked Securities, due August 22, 2011 (coupon rate of 3.3%)	201	196
Express Scripts Automatic Exchange Security Trust, due November 15, 2003 (coupon rate of 7%)	-	219
Shared Appreciation Income Linked Securities II, due April 28, 2008 (implicit coupon rate of 2.27%)	253	-
Real Estate Mortgage Investment Conduit, due September 17, 2003, interest rate is LIBOR plus 15 basis points	-	148
6.40% Surplus Notes, due December 15, 2003	-	154
7.50% Surplus Notes, due December 15, 2023	125	125
5.875% Surplus Notes, due May 15, 2033	990	-
Non-recourse debt	352	-
Other (primarily capital lease)	<u>61</u>	<u>61</u>
Total debt	<u>\$2,950</u>	<u>\$2,602</u>

At December 31, 2003 and 2002 the face value of commercial paper issued by New York Life Capital Corporation ("Capital Corporation"), an indirect wholly owned subsidiary of NYLIC, was approximately \$970 million and \$1,704 million, respectively, with an unamortized discount of \$2 million and \$5 million for 2003 and 2002, respectively. For the years ended December 31, 2003 and 2002, interest expense totaled \$13 million and \$25 million, respectively.

On August 22, 2001, the Company entered into an agreement with Credit Suisse First Boston International and Credit Suisse First Boston ("CSFB"), referred to as Shared

Appreciation Income Linked Securities (“SAILS”) in the above table. Under the agreement, the Company has entered into a forward sale of certain of its shares of ESI, an investment of the Company accounted for under the equity method. The Company may deliver up to 4.5 million shares of ESI common stock on August 22, 2011 or settle the transaction in cash instead of delivering shares. The Company received \$54.05 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 \$70.27 and 23% of the appreciation in excess of \$70.27 per share. In accordance with SFAS 133 (as amended by “SFAS 138”), \$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, 2003 and 2002, the accretion of interest expense totaled \$5 million, respectively. The Company pays CSFB a 3.3% annual interest payment quarterly on each November 22, February 22, May 22, and August 22. For each of the years ended December 31, 2003 and 2002, the Company made interest payments of \$8 million.

On November 17, 2003, the Company’s forward contract originally entered into in 2000 with Express Scripts Automatic Exchange Security Trust (the “Trust”), a non-affiliated, registered, closed-end management investment company, matured. The Company was obligated to deliver up to 6.9 million shares, adjusted to reflect a two-for-one stock split effected on June 22, 2001, of ESI common stock on November 15, 2003 or settle the transaction in cash instead of delivering shares. The Company received \$34.50 per share or \$238 million, less offering costs and prepaid interest bringing net proceeds to \$184 million. The Company was entitled to 100% of the appreciation up to \$41.40 per share and 17% of the appreciation in excess of \$41.40 per share. The carrying amount of the debt obligation was accreted up to its par value of \$238 million at maturity. On November 17, 2003, the obligation was settled in connection with delivery of 5,749,770 shares of ESI stock, having a value of \$329 million. Amortization of deferred offering costs was \$2 million and \$3 million for 2003 and 2002, respectively. For the years ended December 31, 2003, and 2002 interest expense totaled \$19 million.

On April 28, 2003, the Company entered into another agreement with CSFB, referred to as Shared Appreciation Income Linked Securities II (“SAILS II”) in the above table. Under this agreement, the Company has entered into a forward sale of certain of its shares of ESI. The Company may deliver up to 5.5 million shares of ESI common stock on August 28, 2008 or settle the transaction in cash instead of delivering shares. The Company received \$55.43 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 \$66.52 per share. Any appreciation in excess of \$66.52 per share will be due to CSFB upon settlement. In accordance with SFAS 133 (as amended by “SFAS 138”), \$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 year ended December 31, 2003, the accretion of interest expense totaled \$7 million.

During 2000, the Company entered into a Real Estate Mortgage Investment Conduit (“REMIC”) by transferring mortgage-backed securities at fair value to a trust. The trust, in turn, issued debt to third parties and equity to the Company. All cash flows from the transferred assets were used to pay down the debt, and the Company did not receive payments on its equity

holdings until the debt was retired or sold. Accordingly, this transaction has been recorded as a financing transaction with the related liability recorded in Debt in the accompanying Consolidated Balance Sheet. On September 16, 2003, the REMIC, which had a balance of \$115 million, was dissolved upon the sale of its assets.

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 the 5.875% Note is scheduled to be paid semiannually on May 15 and November 15 of each year.

On December 15, 1993, NYLIC issued Surplus Notes (“Notes”) with a principal balance of \$450 million: \$150 million of a 6.40% Surplus Note, due 2003 and \$300 million of a 7.50% Surplus Note due 2023. These Notes were issued pursuant to Rule 144A under the Securities Act of 1933 and are administered by a U.S. Bank as registrar/paying agent. Proceeds from the issuance of the Notes were \$445 million, net of related issuance costs. On December 15, 2003, the \$150 million note matured, and with the approval of the Superintendent of Insurance of the State of New York (“Superintendent”), was repaid and retired.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of NYLIC. The Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds, which the Superintendent determines to be available for such payments under New York State Insurance law. Subject to prior approval of the Superintendent, the 7.50% Note may be redeemed at NYLIC’s election, in whole or in part, at any time at a premium until December 15, 2012 and thereafter at a redemption price equal to 100% of the principal amount. Subject to prior approval of the Superintendent, the 5.875% Notes may be redeemed at the option of the Company at any time at the “make-whole” redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed, or the sum of the present values of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the notes are to be redeemed, discounted to a semi-annual basis at the adjusted treasury rate plus 20 basis points.

Interest on the 6.40% Note which matured on December 15, 2003 was scheduled to be paid semi-annually on April 15 and October 15 of each year. Interest on the 7.50% Note is scheduled to be paid semi-annually on July 15 and January 15 of each year. Interest on the 5.875% Note is scheduled to be paid semiannually on May 15 and November 15 of each year. For the years ended December 31, 2003 and 2002 interest expense totaled \$51 million and \$19 million, respectively on all of NYLIC’s surplus notes. Accrued interest at December 31, 2003 and 2002 was \$9 million.

At December 31, 2003, the Company was required to consolidate an asset backed investment vehicle (commonly referred to as a collateralized debt obligation, or “CDO”). The CDO has debt outstanding of \$352 million, all of which is non-recourse to the Company.

Amounts due on other debt are \$4 million in 2004, \$4 million in 2005, \$6 million in 2006, \$6 million in 2007, \$21 million in 2008 and \$20 million thereafter.

## **Line of Credit**

On July 30, 2003, the Company entered into a credit agreement with a consortium of banks. This agreement totals \$1 billion and consists of a \$500 million, 364-day revolving credit facility (“Facility A”) expiring on July 28, 2004 and a \$500 million, 3-year revolving credit facility (“Facility B”) expiring July 30, 2006. Annual facility fees for Facility A and B are currently 5 basis points (“bps”) and 7 bps, respectively. For Facility A and B, borrowing rates are currently at spreads of 17.5 bps and 15.5 bps over LIBOR, respectively. Annual facility fees and borrowing rates could increase if NYLIC’s Standard & Poor’s Claims Paying Ability rating and Moody’s Financial Strength rating are downgraded. In addition, the credit agreement contains various covenants pertaining to allowable activities of the Company. Facilities A and B have replaced the previously existing \$300 million, 364-day revolving credit facility and a \$700 million, 5-year revolving credit facility that expired on July 30, 2003 and August 5, 2003, respectively. The Company has not utilized these credit facilities to date.

## **NOTE 12 - BENEFIT PLANS**

### **Pension Plans**

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

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

Retirement Plan participants are entitled to annual pension benefits beginning at normal retirement date, which is the later of the last day of the month in which age 65 is attained or the completion of 5 years of vesting service. The benefit is based on the agent's Frozen Accrued Benefit, if applicable, and his/her Earnings-Related Benefit Accruals (“ERBA”). The Frozen Accrued Benefit is the amount accrued as of December 31, 1990, for service, if any, on or prior to that date under the production-related benefit formula. For periods of service after December 31, 1990, the agent’s ERBA are calculated by multiplying the sum of his/her Pensionable Earnings credited after 1990 by 2.75%. NYLIC also maintains the NYLIC Excess Benefit Plan. The plan is a nonqualified, unfunded arrangement that provides (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 so that the total of their retirement benefit under the NYLIC Retirement Plan and the additional amount is equivalent to their Senior NYLIC income.

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 2003 and 2002 of \$58 million and \$46 million, respectively. No contributions were made to the Retirement Plan in 2003 and 2002.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts and group annuity contracts 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 also has investments in certain limited partnerships. Each plan's investments in the GA Contract, the SA Contract and certain limited partnerships are held in the separate trust established under each Plan.

NYLIC is the issuer of the GA and SA Contracts, and NYLIC 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.

During 2003, NYLIC determined that a postretirement agent benefit liability was required to be accrued pursuant to the methodology promulgated under SFAS No. 87, "Employers Accounting For Pensions". Previously, the methodology employed for valuing this liability was based on the present value of accrued benefits. The valuation change is shown in the table below as an adjustment to the projected benefit obligation beginning balance, with the cumulative effect of changing the liability valuation of \$15 million reflected in the net pension cost.

## **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 there under in the event of a change in control of NYLIC. The grantor trusts are not subject to ERISA.

## **Defined Contribution Plans**

NYLIC maintains the Employee Progress-Sharing Investment Plan ("EPSI") which is a qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees of NYLIC and certain eligible employees of subsidiaries that adopt EPSI (individuals eligible under NYLIC's Agents' Progress-Sharing Investment Plan are not eligible under EPSI). Under EPSI, participants may contribute (1) on a pre-tax basis to a 401(k) account, a percentage of base salary and eligible incentive compensation (up to 10% for employees whose total annual compensation exceeds the highly compensated threshold of \$90,000 based on 2002

total pay and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (2) to a non-tax deductible account up to 10% of base salary and eligible incentive pay. Highly compensated employees are limited to a combined 401 (k) and non-tax deductible rate of 10%. In addition, EPSI participants who were at least age 50 by December 31, 2003 may contribute up to \$2,000 in pre-tax "catch-up contributions" during 2003 (up from \$1,000 during 2002 if age 50 by December 31, 2002). These catch-up contributions are permitted above any Plan or legal limitation.

NYLIC annually determines the level of the Company's matching contributions to EPSI. In 2003 and 2002, NYLIC made matching contributions of up to 3% of base salary and eligible incentive pay, of participants' contributions. For the years ended December 31, 2003 and 2002, the Company's matching contributions to EPSI totaled \$16 million, and \$15 million, respectively. EPSI also provides that New York Life Investment Management LLC ("NYLIM"), an indirect wholly owned subsidiary of NYLIC, may make a discretionary company contribution for certain eligible employees of NYLIM, and commencing with the 2002 Plan Year for certain eligible employees of New York Life Trust Company and New York Life Trust Company, FSB, both indirect wholly owned subsidiaries of NYLIC. For the 2002 Plan Year, NYLIM approved a discretionary contribution of 5% of Plan compensation, which totaled \$2.5 million for eligible NYLIM employees, and \$25,000 for certain eligible employees of New York Life Trust Company and New York Life Trust Company, FSB. 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 may contribute a percentage of their compensation on a pre-tax basis to a 401(k) account. For 2003, agents whose total annual compensation exceeds the highly compensated threshold of \$90,000 based on 2002 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%. In addition, APSI participants who were at least age 50 by December 31, 2003 may contribute up to \$2,000 in pre-tax "catch-up contributions" during 2003 (up from \$1,000 during 2002 if age 50 by December 31, 2002). These catch-up contributions are permitted above any Plan or legal limitation.

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 2003 and 2002, the Company's contributions to APSI both totaled \$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. The agent contribution towards contributory life insurance is based on the agent class (I, II or III), age, level of benefits and location of residence.

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

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

It has been the Company's practice to prefund postretirement benefits to the extent allowable for federal income tax purposes. Prefunding contributions are made to the Retired Employee VEBA Trust and the Retired Agent VEBA Trust, which is used to partially fund postretirement health and life benefits. For the years ended December 31, 2003 and 2002 prefunding contributions to the Retired Employee VEBA Trust totaled \$1 million and \$2 million, respectively. For the years ended December 31, 2003 and 2002 prefunding contributions to the Retired Agent VEBA Trust totaled \$2 million and \$1 million, respectively.

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

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2003	2002	2003	2002
<b>Change in projected benefit obligation:</b>				
Projected benefit obligation at beginning of year*	\$2,766	\$2,425	\$905	\$795
Postretirement agent benefit liability	<u>153</u>	<u>-</u>	<u>-</u>	<u>-</u>
Projected benefit obligation at beginning of year, as adjusted	2,919	2,425	905	795
Service cost	80	73	20	16
Interest cost	198	177	62	58
Contributions by plan participants	-	-	2	2
Actuarial (gains) losses	270	230	90	86
Benefits paid	(150)	(139)	(43)	(42)
Plan amendments	-	-	(50)	(10)
Executive life insurance liability	<u>N/A</u>	<u>N/A</u>	<u>35</u>	<u>-</u>
Projected benefit obligation at end of year*	<u>\$3,317</u>	<u>\$2,766</u>	<u>\$1,021</u>	<u>\$905</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year*	\$2,278	\$2,492	\$374	\$409
Actual return on plan assets	335	(132)	37	(39)
Contributions by employer	73	57	18	36
Contributions by plan participants	-	-	2	2
Benefits paid	<u>(150)</u>	<u>(139)</u>	<u>(43)</u>	<u>(34)</u>
Fair value of plan assets at end of year*	<u>\$2,536</u>	<u>\$2,278</u>	<u>\$388</u>	<u>\$374</u>
<b>Funded status:</b>				
Funded status *	(\$781)	(\$488)	(\$633)	(\$531)
Unamortized prior service cost	26	16	(33)	24
Unrecognized net (gain)/loss	1,294	1,118	203	111
Remaining net asset at transition	-	-	-	-
Contributions by employer (October 1 – December 31)	5	3	7	7
Intangible asset	(2)	-	-	-
Minimum pension liability (pre tax) included in Accumulated other comprehensive income/(loss) <sup>1</sup>	<u>(19)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Prepaid (accrued) benefit cost at December 31</b>	<u>\$523</u>	<u>\$649</u>	<u>(\$456)</u>	<u>(\$389)</u>
Accumulated Benefit obligation for all defined pension plans at December 31*	<u>\$2,898</u>	<u>\$2,440</u>		

\*For both 2003 and 2002, a September 30 measurement date was used.

<sup>1</sup> An additional minimum liability adjustment is required when the actuarial present value of accumulated benefits exceeds plan assets and accrued pension liabilities. The additional minimum pension liability, less allowable intangible assets, net of tax benefit, is reported as a reduction to Accumulated other comprehensive income. At December 31, 2003, the Company was required to establish such an additional minimum liability adjustment to its New York Life Excess Benefit Plan in the amount of \$19 million, pre tax.

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

	<b>Pension</b>		<b>Other Postretirement</b>	
	<b>Plan Benefits</b>		<b>Plan Benefits</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>Components of net periodic benefit cost:</b>				
Service cost	\$80	\$ 73	\$20	\$ 16
Interest cost	198	177	62	58
Expected return on plan assets	(256)	(283)	(37)	(37)
Amortization of (gains)/losses	14	1	(1)	(5)
Amortization of prior service cost/(credit)	(9)	(10)	6	8
Executive Life Insurance	-	-	35	-
Other	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost (credit)	<u>\$37</u>	<u>\$(42)</u>	<u>\$85</u>	<u>\$40</u>

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

	<b>Pension</b>		<b>Other</b>	
	<b>Plan Benefits</b>		<b>Postretirement</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>Weighted-average assumptions used to determine benefit obligations*:</b>				
Discount rate	6.25%	7.00%	6.25%	7.00%
Rate of compensation increase:				
Employees	5.42%	5.42%	5.42%	4.87%
Agents	6.77%	6.77%	N/A	N/A

\*For both 2003 and 2002, a September 30 measurement date was used.

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

	<b>Pension</b>		<b>Other</b>	
	<b>Plan Benefits</b>		<b>Postretirement</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
<b>Weighted-average assumptions used to determine net periodic benefit cost for year ended December 31:</b>				
Discount rate	7.00%	7.50%	7.00%	7.50%
Expected return on plan assets	9.00%	10.00%	8.00%	8.00%
Rate of compensation increase:				
Employees	5.42%	5.42%	4.87%	4.87%
Agents	6.77%	6.77%	N/A	N/A

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.

Assumed health care cost trend rates at September 30:

	<u>2003</u>	<u>2002</u>
Current health care cost trend rate assumed for next year	Pre-65: 9.0% Post-65: 11.0%	Pre-65: 10.0% Post-65: 12.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	Pre-65: 5.0% Post-65: 5.0%	Pre-65: 5.0% Post-65: 5.0%
Year that the rate reaches the ultimate trend rate	Pre-65: 2008 Post-65: 2010	Pre-65: 2008 Post-65: 2010

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

	<u>2003 One Percent Increase</u>	<u>2003 One Percent Decrease</u>
Effect on total of service and interest cost components	\$11	\$9
Effect on accumulated postretirement benefit obligation	\$106	\$88

The weighted-average asset allocation for the agent and employee defined benefit pension plans at September 30, 2003 and 2002, and target allocations by asset category are as follows:

<u>Asset Category</u>	<u>Target Allocation Percentage</u>	<u>Percentage of Plan Assets</u>	
	<u>2003</u>	<u>2003</u>	<u>2002</u>
Fixed Income	40%	42%	48%
Equity securities	60%	58%	52%
Total	100%	100%	100 %

Equity securities include common stock in the amount of \$1,472 million (58% of total assets of the plans) and \$1,183 million (52% of total assets of the plans) at September 30, 2003 and 2002 respectively.

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

The Company's weighted-average asset allocation for the other postretirement benefit plan at September 30, 2003 and 2002, and target allocations by asset category under the VEBA Trusts are as follows:

Asset Category	Target Allocation Percentage		Percentage of VEBA Trust Assets			
	2003		2003		2002	
	Health	Life	Health	Life	Health	Life
Fixed Income Securities	40%	30%	53%	43%	59%	47%
Equity Securities	60%	70%	47%	57%	41%	53%
Total	100%	100%	100%	100%	100%	100%

Equity securities include common stock in the amount of \$188 million (50% of total VEBA Trust assets) and \$159 million (43% of total VEBA Trust assets) at September 30, 2003 and 2002, respectively.

### Cash Flows

The Company expects to contribute \$17 million to its qualified and non-qualified pension plans and \$28 million to its other postretirement benefit plans in 2004.

### Other

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act expands Medicare, primarily by adding a voluntary prescription drug benefit for Medicare eligibles starting in 2006. The Act provides employers currently sponsoring prescription drug programs for Medicare-eligibles with a range of options for coordinating with the new government-sponsored program to potentially reduce program cost. These options include supplementing the government program on a secondary payer basis or accepting a direct subsidy from the government to support a portion of the cost of the employer's program.

As the Act was signed into law after the Company's FAS 106 measurement date (September 30, 2003), any potential financial impact of the Act is not reflected in these 2003 disclosures.

FASB Staff Position 106-1 allows the Company to begin recognizing any potential impact of the Act in the first quarter 2004 financial statements or to defer recognizing the potential impact until more definitive accounting guidance is provided. The Company is currently studying this matter and has not yet decided whether or not it will defer recognition.

## **NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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 all counterparties. The credit support annex requires that a swap counterparty post collateral to secure that portion of its anticipated swap obligation in excess of a specified threshold. The threshold declines with a decline in the counterparties' rating. Collateral received is invested in short-term investments.

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge. This includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed and measured. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The hedging relationship is considered highly effective if the changes in fair value or discounted cash flows of the hedging instrument is within 80-125% of the inverse changes in the fair value or discounted cash flows of the hedged item. The Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. For fair value hedges, the Company generally uses a qualitative assessment to measure hedge effectiveness. 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, (v) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reflected in net investment gains (losses), together with changes in the fair value of the related hedged item. The net amount, representing hedge ineffectiveness, is reflected in current earnings. The Company's fair value hedges are primarily

hedges of fixed-rate long-term debt, equities and available-for-sale securities. No gains or losses on derivatives designated as fair value hedges were excluded from the assessment of effectiveness for the years ended December 31, 2003 and 2002.

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 cumulative translation adjustment for the asset/liability being hedged. To the extent these derivatives are not effective, changes in their fair values are immediately included in earnings in net investment gains and losses. The Company's cash flow hedges primarily include hedges of floating rate available-for-sale securities, hedges of the forecasted purchase of available-for-sale securities and liabilities that are exposed to foreign exchange risk. During 2003 no hedge ineffectiveness was recognized in net investment gains and losses related to cash flow hedges. 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. At December 31, 2003, there was \$140 million notional in cash flow hedges of forecasted transactions. There were no cash flow hedges of forecasted transactions as of December 31, 2002.

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 other comprehensive income as part of the foreign currency translation adjustment. The amounts included in other comprehensive income from these hedges were \$(11) million and \$1 million at December 31, 2003 and 2002, respectively.

The estimated amount of existing gains and losses that are reported in other comprehensive income at December 31, 2003 and 2002 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 \$47 million and \$66 million, respectively.

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. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in net investment gains (losses). When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in other comprehensive income and will be

recognized when the transaction affects net income; however, prospective hedge accounting for the transaction is terminated. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period net investment gains (losses). During 2003, two fair value hedging transactions with a notional amount of \$38 million no longer qualified for hedge accounting treatment due to hedge ineffectiveness. The net realized loss during the period of ineffectiveness was \$8 million in 2003. No hedging transactions were discontinued for the year ended December 31, 2002 due to hedge ineffectiveness.

The Company has derivative instruments that do not qualify for hedge accounting treatment. These derivatives include interest rate options, credit default swaps, various interest rate and currency swaps, and foreign exchange forward contracts. Derivatives that do not qualify for hedge accounting are carried at fair value with changes in value included in net investment gains (losses).

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 net investment gains (losses). 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, 2003 and 2002, there were no such embedded derivatives that could not be separated from their host contracts.

NYLIFE LLC has an agreement with the MainStay Equity Index Fund (“Index Fund”), whereby, NYLIFE LLC guarantees that if, after ten years from the date of purchase (“guaranteed date”), the net asset value of an Index Fund share plus the value of all dividends and distributions paid, including cumulative reinvested dividends and distributions attributable to such share paid during that ten year period, is less than the public offering price initially paid for the share (“guaranteed amount”), NYLIFE LLC will pay the shareholders an amount equal to the difference between the guaranteed amount for each share and the net asset value of each share outstanding and held by the shareholders as of the close of business on the guarantee date. This guarantee is in effect a European style put option required to be fair valued pursuant to SFAS No. 133 (as amended by SFAS 138). Its fair value represents the estimated value of future claims which was calculated using a Monte-Carlo simulation of the future equity market changes based on random scenarios drawn from a distribution of annual returns and volatility. Actual results could differ from those estimates. At December 31, 2003, the derivative was calculated using an annual return of 9% and a volatility of 16%. For the years ended 2003 and 2002, the change in fair value resulted in NYLIFE LLC recording a gain of \$8 million and a loss of \$10 million, respectively, which was reported in net investment gains (losses) in the accompanying Consolidated Statement of Income. At December 31, 2003 and 2002, NYLIFE LLC recognized a

liability totaling \$4 million, and \$12 million, respectively, which was included in other liabilities in the accompanying Consolidated Balance Sheet.

In 2003 and 2001, the Company entered into agreements to minimize its downside risk on the Company's investment in ESI while still maintaining rights to share in future appreciation (SAILS indirectly through NYLIFE LLC, and SAILS II, as discussed in Note 11 - Debt). The counter-party to the agreement is CSFB. The agreements contain embedded derivatives and the Company has assessed that the economic characteristics of the derivatives (a series of European style put and call options) were not clearly and closely related to those of the host contract and determined that a separate instrument with the same terms would qualify as a derivative instrument. In accordance with SFAS No. 133 (as amended by SFAS No. 138), the embedded derivatives were separated from the host contract and accounted for as stand-alone derivatives. Since the Company's investment in ESI is valued using the equity method of accounting, these embedded derivatives are precluded from being designated a hedge. This creates accounting volatility because changes in the fair value of the corresponding ESI shares are not recorded in the financial statements due to the use of the equity method of accounting.

The fair value of these derivatives represent 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, 2003, the derivatives were calculated using an eight year swap interest rate of 4.345% and a five year swap interest rate of 3.665% for SAILS and SAILS II, respectively. The implied volatility was 32.73% for both agreements. For the years ended December 31, 2003 and 2002, the change in fair value resulted in the Company recording a loss of \$113 million and a gain of \$24 million respectively, which is included in net investment gains (losses) on the accompanying Consolidated Statement of Income. At December 31, 2003 and 2002, the total liability related to these embedded derivatives totaled \$145 million and \$5 million, respectively, and are included in other long-term investments on the accompanying Consolidated Balance Sheet.

## **NOTE 14- COMMITMENTS AND CONTINGENCIES**

### **Litigation**

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

Notwithstanding the uncertain nature of litigation and regulatory inquiries, the outcome of which cannot be predicted, the Company believes that, after provisions made in the financial

statements, the ultimate liability that could result from litigation and proceedings would not have a material adverse effect on the Company's financial position; however, it is possible that settlements or adverse determinations in one or more actions or other proceedings in the future could have a material adverse effect on the Company's operating results for a given year.

### **Assessments**

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

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

The Company participates in a securities lending program for the purpose of enhancing income on securities held. As of December 31, 2003 and 2002, \$4,248 million and \$3,439 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, 2003 and 2002, the Company recorded cash collateral received under these agreements of \$4,329 million and \$3,489 million, respectively, and established a corresponding liability for the same amount.

Following the entering into of the SAILS and SAILS II agreements with CSFB described in Note 11, the Company agreed to lend CSFB up to 4.5 million and 5.5 million shares of the ESI common stock pledged as collateral for each respective deal. As of December 31, 2003 and 2002, CSFB had borrowed 8.49 million and 3.65 million shares, respectively, with a market value of \$564 million and \$176 million, respectively. These transactions are generally collateralized with the right of offset against the Company's liabilities to CSFB. At December 31, 2003 and 2002, the carrying amount of the borrowed shares was \$135 million and \$48 million, respectively.

The Company enters into agreements to sell and repurchase securities for the purpose of enhancing income on securities held. Under these agreements, the Company obtains the use of funds from a broker for approximately one month. Collateral received is invested in short-term investments and the offsetting collateral liability reported approximates fair value. The liability reported in the Consolidated Balance Sheet (included in other liabilities) for dollar repurchase agreements at December 31, 2003 and 2002 amounted to \$316 million and \$1,705 million, respectively. The investments acquired with the funds received from the securities sold are primarily included in cash and cash equivalents. At December 31, 2003 and 2002, the Company had \$614 million and \$0 million, respectively, of reverse repurchase agreements outstanding.

## Lease Commitments

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

Future minimum lease payments under non-cancelable operating leases with original or remaining lease terms in excess of one year at December 31, 2003 were as follows (in millions):

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2004	\$109	\$ 23	\$ 132
2005	83	19	102
2006	72	11	83
2007	62	2	64
2008	55	-	55
Over 5 years	<u>211</u>	<u>-</u>	<u>211</u>
Total	592	55	647
Less future sublease rental receipts	<u>6</u>	<u>-</u>	<u>6</u>
Total	<u>\$586</u>	<u>\$55</u>	<u>\$641</u>

Rent expense for the years ended December 31, 2003 and 2002 amounted to \$115 million and \$102 million, respectively.

## NOTE 15 - RELATED PARTY TRANSACTIONS

### Company Managed Mutual Funds

NYLIM Holdings, through its subsidiaries, is responsible for providing investment advisory and certain related administrative services to the MainStay Funds, MainStay VP Series Fund, Inc., Eclipse Funds and Eclipse Funds, Inc. (formerly The MainStay Institutional Funds, Inc.) (collectively, the "NYLIM Funds"). McMorgan & Company LLC, a wholly owned subsidiary of NYLIM Holdings, is the investment advisor to the McMorgan Funds (collectively with the NYLIM Funds, "the Funds"). Additionally, NYLIM Holdings, through its subsidiaries, earns investment management, accounting, administration and service fees related to the Funds, which aggregated \$275 million and \$268 million for the years ended December 31, 2003 and 2002, respectively, and are included in other income in the accompanying Consolidated Statement of Income.

### Other Transactions

As of December 31, 2003 two executives of the Company were also directors of ESI. ESI periodically performs services for or has other transactions with the Company. Such transactions are entered into on terms comparable to those that would be available to unrelated third parties and are not material to the Company's consolidated financial condition or results of operations.

As of December 31, 2003 two employees of the Company were also directors of New York Life Agents Reinsurance Company ("NYLARC"). NYLARC is an Arizona based life and disability reinsurance company that is wholly owned by NYLARC Holding Company Inc.

NYLARC has reinsurance treaties and service agreements with the Company. These transactions were entered into on terms comparable to those that would be available to unrelated third parties and are not material to the Company's consolidated financial condition or results of operations.

**NOTE 16- SUPPLEMENTAL CASH FLOW INFORMATION**

Income taxes paid were \$299 million and \$276 million for the years ended December 31, 2003 and 2002, respectively.

Interest paid on debt was \$127 million and \$71 million for the years ended December 31, 2003 and 2002, respectively.