



Insurance



# NYLIAC Single Premium Variable Universal Life

NYLIAC Consolidated Financial Statements (GAAP Basis)

December 31, 2008 and 2007

May 1, 2009

*The Company You Keep®*

**This book is not complete or valid unless accompanied by a current NYLIAC variable universal life funds prospectus.**



**NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION**  
**(a wholly owned subsidiary of New York Life Insurance Company)**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**(GAAP Basis)**  
**December 31, 2008 and 2007**

**NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION**  
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**CONSOLIDATED BALANCE SHEET**

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(In millions)</b>	
<b>ASSETS</b>		
Fixed maturities, at fair value		
Available-for-sale (includes securities pledged as collateral that can be sold or repledged of \$1,152 in 2008 and \$1,625 in 2007) . . . . .	\$41,308	\$39,799
Trading securities . . . . .	52	71
Equity securities, at fair value		
Available-for-sale . . . . .	1,133	15
Mortgage loans . . . . .	5,653	5,208
Policy loans . . . . .	750	703
Securities purchased under agreements to resell . . . . .	185	682
Other investments . . . . .	<u>1,515</u>	<u>648</u>
Total investments . . . . .	50,596	47,126
Cash and cash equivalents . . . . .	907	893
Deferred policy acquisition costs . . . . .	4,667	3,431
Interest in annuity contracts . . . . .	4,716	4,468
Amounts recoverable from reinsurer . . . . .	6,604	6,601
Other assets . . . . .	1,847	869
Separate account assets . . . . .	<u>12,881</u>	<u>19,093</u>
Total assets . . . . .	<u>\$82,218</u>	<u>\$82,481</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Liabilities</b>		
Policyholders' account balances . . . . .	\$48,766	\$42,795
Future policy benefits . . . . .	3,733	2,766
Policy claims . . . . .	193	183
Obligations under structured settlement agreements . . . . .	4,716	4,468
Amounts payable to reinsurer . . . . .	5,686	5,379
Other liabilities . . . . .	2,253	2,824
Separate account liabilities . . . . .	<u>12,881</u>	<u>19,093</u>
Total liabilities . . . . .	<u>78,228</u>	<u>77,508</u>
<b>Stockholder's Equity</b>		
Capital stock — par value \$10,000 (20,000 shares authorized, 2,500 issued and outstanding) . . . . .	25	25
Additional paid in capital . . . . .	2,628	1,410
Accumulated other comprehensive income . . . . .	(2,137)	95
Retained earnings . . . . .	<u>3,474</u>	<u>3,443</u>
Total stockholder's equity . . . . .	<u>3,990</u>	<u>4,973</u>
Total liabilities and stockholder's equity . . . . .	<u>\$82,218</u>	<u>\$82,481</u>

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

**NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION**  
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**CONSOLIDATED STATEMENT OF INCOME**

	Year Ended December 31,		
	2008	2007	2006
	(In millions)		
<b>Revenues</b>			
Premiums . . . . .	\$1,374	\$ 855	\$ 565
Fees-universal life and annuity policies . . . . .	619	601	487
Net investment income . . . . .	2,755	2,578	2,400
Net investment losses . . . . .	(406)	(66)	(41)
Net revenue from reinsurance . . . . .	206	206	214
Other income . . . . .	35	36	28
Total revenues . . . . .	4,583	4,210	3,653
<b>Expenses</b>			
Interest credited to policyholders' account balances . . . . .	2,141	1,781	1,646
Increase in liabilities for future policy benefits . . . . .	1,225	777	529
Policyholder benefits . . . . .	349	204	114
Operating expenses . . . . .	900	963	899
Total expenses . . . . .	4,615	3,725	3,188
(Loss) Income before income taxes . . . . .	(32)	485	465
Income tax (benefit) expense . . . . .	(63)	159	138
<b>Net income</b> . . . . .	<b>\$ 31</b>	<b>\$ 326</b>	<b>\$ 327</b>

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**NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION**  
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**CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY**  
**Years Ended December 31, 2008, 2007 and 2006**

(In millions)

	<u>Capital Stock</u>	<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholder's Equity</u>
<b>Balance at January 1, 2006</b> . . . . .	\$25	\$1,410	\$2,828	\$ 231	<u>\$ 4,494</u>
Comprehensive income:					
Net income . . . . .			327		<u>327</u>
Unrealized investment losses, net of related offsets, reclassification adjustments and income taxes . . . . .				(154)	<u>(154)</u>
Other comprehensive income . . . . .					<u>(154)</u>
Total comprehensive income . . . . .					<u>173</u>
Distribution to stockholder . . . . .	<u>—</u>	<u>—</u>	<u>(12)</u>	<u>—</u>	<u>(12)</u>
<b>Balance at December 31, 2006</b> . . . . .	25	1,410	3,143	77	<u>4,655</u>
Cumulative effect of changes in accounting principles, net of income tax (see Note 3) . . . . .	<u>—</u>	<u>—</u>	<u>(26)</u>	<u>—</u>	<u>(26)</u>
<b>Balance at January 1, 2007, as adjusted</b> . . . . .	25	1,410	3,117	77	<u>4,629</u>
Comprehensive income:					
Net income . . . . .			326		<u>326</u>
Unrealized investment gains, net of related offsets, reclassification adjustments and income taxes . . . . .				18	<u>18</u>
Other comprehensive income . . . . .					<u>18</u>
Total comprehensive income . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>344</u>
<b>Balance at December 31, 2007</b> . . . . .	25	1,410	3,443	95	4,973
Comprehensive income:					
Net income . . . . .			31		<u>31</u>
Unrealized investment losses, net of related offsets, reclassification adjustments and income taxes . . . . .				(2,232)	<u>(2,232)</u>
Other comprehensive income . . . . .					<u>(2,232)</u>
Total comprehensive income . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2,201)</u>
Capital Contribution . . . . .	<u>—</u>	<u>1,218</u>	<u>—</u>	<u>—</u>	<u>1,218</u>
<b>Balance at December 31, 2008</b> . . . . .	<u>\$25</u>	<u>\$2,628</u>	<u>\$3,474</u>	<u>\$(2,137)</u>	<u>\$ 3,990</u>

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**NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION**  
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**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Year Ended December 31,		
	2008	2007	2006
	(In millions)		
<b>Cash Flows from Operating Activities:</b>			
Net income . . . . .	\$ 31	\$ 326	\$ 327
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization . . . . .	10	34	55
Net capitalization of deferred policy acquisition costs . . . . .	(324)	(128)	(248)
Annuity and universal life fees . . . . .	(489)	(455)	(412)
Interest credited to policyholders' account balances . . . . .	2,141	1,781	1,646
Net investment losses . . . . .	406	66	41
Equity in earnings of limited partnerships . . . . .	65	1	1
Deferred income taxes . . . . .	104	1	52
Net revenue from intercompany reinsurance . . . . .	(74)	(45)	(57)
Net change in unearned revenue liability . . . . .	36	30	49
Changes in:			
Other assets and other liabilities . . . . .	23	(67)	8
Reinsurance recoverables and payables . . . . .	38	10	25
Trading securities . . . . .	7	9	(1)
Policy claims . . . . .	10	27	30
Future policy benefits . . . . .	1,233	781	543
<b>Net cash provided by operating activities</b> . . . . .	<b>3,217</b>	<b>2,371</b>	<b>2,059</b>
<b>Cash Flows from Investing Activities:</b>			
Sale of available-for-sale fixed maturities . . . . .	16,084	12,765	11,100
Maturity of available-for-sale fixed maturities . . . . .	1,217	997	1,337
Sale of equity securities . . . . .	51	67	44
Repayment of mortgage loans . . . . .	491	449	618
Sale of other investments . . . . .	129	181	95
Cost of:			
Available-for-sale fixed maturities acquired . . . . .	(23,354)	(15,147)	(15,182)
Equity securities acquired . . . . .	(241)	(5)	(50)
Cash collateral paid on derivatives . . . . .	(12)	(2)	—
Mortgage loans acquired . . . . .	(936)	(1,468)	(1,198)
Other investments acquired . . . . .	(994)	(278)	(262)
Securities purchased under agreements to resell . . . . .	497	(305)	(90)
Policy loans (net) . . . . .	(47)	(51)	(52)
<b>Net cash used in investing activities</b> . . . . .	<b>(7,115)</b>	<b>(2,797)</b>	<b>(3,640)</b>
<b>Cash Flows from Financing Activities:</b>			
Policyholders' account balances:			
Deposits . . . . .	9,509	5,467	6,183
Withdrawals . . . . .	(4,973)	(4,809)	(4,174)
Net transfers to the separate accounts . . . . .	(307)	(544)	(371)
(Decrease) increase in loaned securities . . . . .	(460)	642	247
Securities sold under agreements to repurchase (net) . . . . .	34	2	(154)
Net (paydowns) proceeds from debt . . . . .	—	(1)	8
Change in book and bank overdrafts . . . . .	29	(19)	18
Distribution to stockholder . . . . .	—	—	(12)
Net distribution to limited partner . . . . .	—	(7)	—
Cash collateral received on derivatives . . . . .	69	5	(3)
Cash contribution from parent . . . . .	11	—	—
<b>Net cash provided by financing activities</b> . . . . .	<b>3,912</b>	<b>736</b>	<b>1,742</b>
Net increase in cash and cash equivalents . . . . .	14	310	161
Cash and cash equivalents, beginning of year . . . . .	893	583	422
<b>Cash and cash equivalents, end of year</b> . . . . .	<b>\$ 907</b>	<b>\$ 893</b>	<b>\$ 583</b>

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**NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(GAAP BASIS)**

**DECEMBER 31, 2008, 2007 AND 2006**

**NOTE 1 — NATURE OF OPERATIONS**

New York Life Insurance and Annuity Corporation (the “Company”) is a direct, wholly owned subsidiary of New York Life Insurance Company (“New York Life”), domiciled in the State of Delaware. The Company offers a wide variety of interest sensitive and variable life insurance and annuity products to a large cross section of the insurance market. The Company markets its products in all 50 of the United States, and the District of Columbia, primarily through its agency force with certain products also marketed through independent brokers and brokerage general agents. Prior to July 1, 2002, the Company also had marketed individual life insurance through its branch office and agency force in Taiwan. On July 1, 2002, the branch office was transferred to an affiliated company, as described in Note 10 — Reinsurance.

*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 with majority owned and controlled limited liability companies.

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

**NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES**

*Use of Estimates*

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

*Investments*

Fixed maturity investments, which the Company has both the ability and the intent to hold to maturity, are stated at amortized cost and classified as held-to-maturity. Investments classified as available-for-sale or trading are reported at fair value. For a discussion on valuation methods for fixed maturities reported at fair value refer to Note 14 — Fair Value Measurements. The amortized cost of debt securities is adjusted for amortization of premium and accretion of discounts. Interest income, as well as the related amortization of premium and accretion of discount, is included in net investment income in the accompanying Consolidation Statement of Income. Unrealized gains and losses on available-for-sale securities are reported in accumulated other comprehensive income, net of deferred taxes and related adjustments, in the accompanying Consolidated Balance Sheet. Unrealized gains and losses from investments classified as trading fixed maturities are reflected in net investment losses in the accompanying Consolidated Statement of Income.

Included within fixed maturity investments are loan-backed securities including mortgage-backed and asset-backed securities. Amortization of the premium or discount from the purchase of these securities considers the estimated timing and amount of cash flows of the underlying loans. Changes in future anticipated prepayment speeds and estimated cash flows on these securities from the original purchase assumptions are accounted for using the retrospective yield adjustment method. Prepayment assumptions for these securities are obtained from a bank or internal estimates.

Equity securities are carried at fair value. For a discussion on valuation methods for equity securities refer to Note 14 — Fair Value Measurements. Unrealized gains and losses on equity securities classified as available-for-

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

sale are reflected in net unrealized investment losses in accumulated other comprehensive income, net of deferred taxes and related adjustments, in the accompanying Consolidated Balance Sheet. Unrealized gains and losses from investments in equity securities classified as trading are reflected in net investment losses in the accompanying Consolidated Statement of Income.

The cost basis of fixed maturities and equity securities is adjusted for impairments in value deemed to be other than temporary, with the associated realized loss reported in net investment losses in the accompanying Consolidated Statement of Income. Factors considered in evaluating whether a decline in value is other than temporary include: i) whether the decline is substantial; ii) the duration that the fair value has been less than cost; iii) the financial condition and near-term prospects of the issuer; and iv) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income in future periods based upon the amount and timing of expected future cash flows of the security, when the recoverable value of the investment, based upon reasonably estimable cash flow and the fair value of the security are greater than the carrying value of the investment after the impairment.

Mortgage loans on real estate are carried at unpaid principal balances, net of discounts/premiums and valuation allowances, and are secured. Specific valuation allowances are established for the excess carrying value of the mortgage loan over its estimated fair value, when it is probable that, based on current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Specific valuation allowances are based on the estimated fair value of the collateral. Fair value is determined by discounting the projected cash flows for each property to determine the current net present value. The Company also has a general valuation allowance for probable incurred but not specifically identified losses. 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. A valuation allowance is established for policy loan balances, including capitalized interest that exceeds the related policy's cash surrender value.

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

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

Other investments consist primarily of direct investments in limited partnerships and limited liability companies, derivatives, real estate and collateralized third party commercial loans. Investments in limited partnerships and limited liability companies are accounted for using the equity method of accounting. Investments in real estate, which the Company has the intent to hold for the production of income, are carried at depreciated cost, net of write-downs for impairments. Properties held-for-sale are carried at the lower of depreciated cost or fair value, less estimated selling costs.

In many cases, investment in limited partnerships and limited liability companies qualify as investment companies and apply specialized accounting practices, which result in unrealized gains and losses being recorded in the accompanying Consolidated Statement of Income. The Company retains this special accounting practice. For such consolidated limited partnerships, the underlying investments, which may consist of various classes of assets, are aggregated and stated at fair value in other investments in the accompanying Consolidated Balance Sheet. For such limited partnerships accounted for under the equity method, the unrealized gains and losses from the

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

underlying investments are reported in net investment income in the accompanying Consolidated Statement of Income.

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

***Variable Interest Entities (“VIEs”)***

In the normal course of its activities, the Company enters into relationships with various special purpose entities and other entities that are deemed to be VIEs, in accordance with Financial Accounting Standards Board (“FASB”) Interpretation (“FIN”) No. 46(R), “Consolidation of Variable Interest Entities.” A VIE is an entity that either (i) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control the entity, the obligation to absorb the entity’s expected losses and the right to receive the entity’s expected residual returns) or (ii) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE. If the Company determines that it stands to absorb a majority of the VIE’s expected losses or to receive a majority of the VIE’s expected residual returns, or both, the Company would be deemed to be the VIE’s “primary beneficiary” and would be required to consolidate the VIE. The Company’s investments in VIEs are discussed in Note 4 — Investments.

***Loaned Securities and Repurchase Agreements***

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

The Company enters into agreements to purchase and resell securities, and agreements to sell and repurchase securities for the purpose of enhancing income on the securities portfolio. Securities purchased under agreements to resell are treated as investing activities and are carried at fair value including accrued interest. It is the Company’s policy to generally take possession or control of the securities purchased under these agreements to resell. However, for tri-party repurchase agreements, the Company’s designated custodian takes possession of the underlying collateral securities. Securities purchased under agreement to resell are reflected separately in the accompanying Consolidated Balance Sheet.

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

The fair value of the securities to be repurchased or resold is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure.

***Deferred Policy Acquisition Costs (“DAC”)***

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

For universal life and deferred annuity contracts, such costs are amortized in proportion to estimated gross profits over the effective life of those contracts. Changes in assumptions for all policies and contracts are reflected

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as retroactive adjustments in the current year's amortization. For these contracts the carrying amount of DAC is adjusted at each balance sheet date as if the unrealized investment gains or losses had been realized and included in the gross margins or gross profits used to determine current period amortization. The increase or decrease in the DAC asset, due to unrealized investment gains or losses, is recorded in other comprehensive income. Beginning in 2009 for new business, the Company will increase the amortization period for universal life policies and deferred annuity contracts to 99 years.

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

The Company assesses internal replacements to determine whether such modifications significantly change the contract terms. When the modification substantially changes the contract, DAC is written off immediately through income and only new deferrable expenses associated with the replacements are deferred. DAC written off at the date of lapse cannot be restored when a policy subsequently reinstates. If the contract modifications do not substantially change the contract, DAC amortization on the original policy will continue and any acquisition costs associated with the related modification are expensed.

***Sales Inducements***

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

***Derivative Financial Instruments***

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

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

The Company discontinues hedge accounting prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; (iii) the derivative is de-designated as a hedge instrument; (iv) it is probable that the forecasted transaction will not occur, or (v) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The Company continually assesses the credit standing of the derivative counterparty and, if the counterparty is deemed to be no longer creditworthy, the hedge will no longer be effective. As a result, the Company will prospectively discontinue hedge accounting. During 2008 and 2007, the Company

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evaluated the creditworthiness of counterparties, and, except as discussed in Note 11 — Derivative Financial Instruments and Risk Management; no issues were noted that led to a discontinuation of hedge accounting.

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

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

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

For cash flow hedges, in which derivatives hedge the variability of cash flows related to variable rate available-for-sale securities, and available-for-sale securities that are exposed to foreign exchange risk, the accounting treatment depends on the effectiveness of the hedge. To the extent the 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 accumulated other comprehensive income. These changes in fair value will be included in net investment gains and losses of future periods when earnings are also affected by the variability of the hedged cash flows. For hedges of assets or liabilities that are subject to transaction gains and losses under SFAS No. 52 “Foreign Currency Translation”, the change in fair value relative to the change in spot rates during the reporting period is reclassified and reported with the transaction gain or loss of the asset/liability being hedged. To the extent these derivatives are not effective, changes in their fair values are immediately included in earnings in net investment losses in the accompanying Consolidated Statement of Income. The assessment of hedge effectiveness for cash flow hedges of interest rate risk excludes amounts relating to risks other than exposure to the benchmark interest rate.

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

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

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

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

***Policyholders' Account Balances***

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

***Future Policy Benefits***

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality, less the present value of future net premiums. For non-participating traditional life insurance and annuity products, expected mortality and lapse or surrender are generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and interest rate assumptions are "locked-in" upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require the Company to provide for expected future losses on a product by establishing premium deficiency reserves. Premium deficiency reserves, if required, are determined based on assumptions at the time the premium deficiency reserve is established and do not include a provision for the risk of adverse deviation. The Company's liability for future policy benefits also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 6 — Policyholders' Liabilities.

***Other Assets and Other Liabilities***

Other assets primarily consist of investment income due and accrued, amounts receivable for undelivered securities, sales inducements, receivable from affiliates, and net deferred tax assets. Other liabilities consist primarily of collateral received on securities loaned, amounts payable for undelivered securities, and payables to affiliates.

***Recognition of Insurance Income and Related Expenses***

Premiums from annuity policies with life contingencies and from whole and term life policies are recognized as income when due. The associated benefits and expenses are matched with premiums 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 6 — Policyholders' Liabilities) and the deferral and subsequent amortization of policy acquisition costs.

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.

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Any excess profit is deferred and recognized as income in a constant relationship to insurance inforce and, for annuities, in relation to the amount of expected future benefit payments. The Company did not have any excess profit for the years ended December 31, 2008, 2007 and 2006.

Amounts received under deferred annuity and universal life contracts are reported as deposits to policyholders' account balances (as discussed in Note 6 — 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 accompanying Consolidated Statement of Income. In addition to fees, the Company earns investment income from the investment of policyholders' deposits in the Company's general account portfolio. Amounts previously assessed to compensate the Company for services to be performed over future periods are deferred and recognized into income over the period benefited using the same assumptions and factors used to amortize DAC. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholders' account balances.

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

Net revenue from reinsurance primarily represents the experience rated refund, amortization of the deferred gain, and the reserve adjustment associated with the reinsurance business ceded to New York Life, as discussed in Note 10 — Reinsurance. This net revenue adjustment excludes ceded universal life fees and ceded policyholder benefits, which are included on these respective lines in the accompanying Consolidated Statement of Income.

***Federal Income Taxes***

The Company is a member of a group that files a consolidated federal income tax return with New York Life. The consolidated income tax provision or benefit is allocated among the members of the group in accordance with a tax allocation agreement. The tax allocation agreement provides that the Company is allocated its share of the consolidated tax provision or benefit, determined generally on a separate company basis. Intercompany tax balances are generally settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return. Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. Deferred federal income tax assets ("DTAs") and liabilities ("DTLs") are recognized for expected future tax consequences of temporary differences between GAAP and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby GAAP and tax balance sheets are compared. Deferred income taxes are generally recognized based on enacted tax rates and a valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

Effective January 1, 2007, the Company adopted FASB Interpretation ("FIN") No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. Under FIN No. 48, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. The amount of tax benefit recognized for certain tax position is the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Unrecognized tax benefits are record as liabilities but off set to other assets in the accompanying Consolidated Balance Sheet and are charged to earnings in the period that such determination is made. The Company classifies interest and penalties related to tax uncertainties as income tax expense.

***Separate Account Assets and Liabilities***

The Company has separate accounts, some of which are registered with the Securities and Exchange Commission ("SEC"), and others that are not registered with the SEC. The separate accounts have varying

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investment objectives, and are segregated from the Company's general account and are maintained for the benefit of separate account policyholders. At December 31, 2008 and 2007, all separate account assets are stated at fair value. Separate account liabilities at December 31, 2008 and 2007 represent the policyholders' interest in the account, and include accumulated net investment income and realized and unrealized gains and losses on the assets.

***Fair Values of Financial Instruments***

For fair values of various assets and liabilities refer to Note 14 — Fair Value Measurements.

***Business Risks and Uncertainties***

The securities and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and capital. In the event the Company needs access to additional capital, its ability to obtain such capital may be limited and the cost of any such capital may be higher than available today.

Rating agencies assign the Company financial strength/claims paying ability ratings, based on their evaluations of the Company's ability to meet its financial obligations. These ratings indicate a rating agency's view of an insurance company's ability to meet its obligations to its insured. In certain of the Company's markets, ratings are important competitive factors of insurance companies. Rating organizations continue to review the financial performance and condition of insurers, including the Company.

The Risk-Based Capital, or RBC ratio, is the primary measure by which regulators evaluate the capital adequacy of the Company. RBC is determined by statutory rules that consider risks related to the type and quality of invested assets, insurance-related risks associated with the Company's products, interest-rate risk and general business risks. A continuation or worsening of the disruptions in the capital markets could increase equity and credit losses and reduce the Company's statutory surplus and RBC ratio.

The Company's investment portfolio consists principally of fixed income securities as well as mortgage loans, policy loans, limited partnerships, and preferred and common stocks. 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 will decrease in value. If interest rates decline, the securities in the fixed income portfolio 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, are generally less liquid and carry a greater risk of investment losses than investment grade fixed maturities.

Changes in interest rates can have significant effects on the Company's profitability. Under certain interest rate scenarios, the Company could be subject to disintermediation risk and/or reduction in net interest spread or profit margins. The fair value of the Company's invested assets fluctuates depending on market and other general economic conditions and the interest rate environment. In addition, mortgage prepayments, life insurance and annuity surrenders and bond calls are affected by interest rate fluctuations. Although management of the Company employs a number of asset/liability management strategies to minimize the effects of interest rate volatility, no guarantee can be given that it will be successful in managing the effects of such volatility. The future path of interest rates is uncertain. Large shocks to the level of interest rates or the shape of the yield curve may have an adverse financial impact to the Company as a result of the potential changes in policyholder behavior, spreads between our portfolio yields and crediting rates, or investment gains (losses).

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

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guarantors of fixed maturity securities held by the Company due to changing assessments of the credit quality of the issuers or guarantors.

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

The Company has exposure to sub-prime and mid-prime residential mortgage lending through its fixed maturity investments that are collateralized by mortgages that include sub-prime or mid-prime lending. Sub-prime residential mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles, including using relaxed mortgage-underwriting standards that provide for affordable mortgage products. These investments are primarily in the form of asset-backed securities (“ABS”) supported by sub-prime or mid-prime mortgage loans or collateralized debt securities (“CDO”) that contain a sub-prime or mid-prime loan component. At December 31, 2008, the market value of investments supported by sub-prime collateral is approximately \$178 million with an unrealized loss of \$37 million. Of this amount, 86.1% had “AAA” or “AA” credit quality ratings. At December 31, 2008, the market value of investments supported by mid-prime collateral is approximately \$652 million with an unrealized loss of \$194 million. Of this amount, 83.0% had “AAA” or “AA” credit quality ratings. The Company manages its sub-prime and mid-prime risk exposure by limiting the Company’s holdings in these types of instruments, maintaining high credit quality investments, and performing ongoing analysis of cash flows, prepayment speeds, default rates and other stress variables.

Weak equity market performance may adversely affect sales of variable products, cause potential purchasers of the Company’s products to refrain from new or additional investments, and may cause current customers to surrender or redeem their current products and investments.

Revenues of the Company’s variable products are based on fees related to the value of assets under management (except for its Elite Annuity product, where future revenue is based on adjusted premium payments). Consequently, poor equity market performance reduces fee revenues.

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

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

The Company faces strong competition in its Life Insurance and Agency and Retirement Income Security businesses. The Company’s ability to compete is based on a number of factors, including product features, investment performance, service, price, distribution capabilities, scale, commission structure, name recognition and financial strength ratings.

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The Company's career agency force is the primary means by which it distributes life insurance products. In order to continue increasing life insurance sales, the Company must retain and attract additional productive career agents.

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. There are a number of current or potential regulatory measures that may affect the insurance industry. The Company is unable to predict whether any changes will be made, whether any administrative or legislative proposals will be adopted in the future, or the effect, if any, such proposals would have on the Company.

The attractiveness to the Company's customers of many of its products is due, in part, to favorable tax treatment. Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. These tax laws have been put in place to serve the social purpose of encouraging the purchase of life insurance for the protection of families and businesses. Taxes, if any, are payable generally on income attributable to a distribution under the contract for the year in which the distribution is made. Death benefits under life insurance contracts are received free of federal income tax. Changes to the favorable tax treatment may reduce the attractiveness of the Company's products to its customers.

***Contingencies***

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Regarding litigation, management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, includes these costs in the accrual.

**NOTE 3 — RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures around fair value measurements. This statement does not require any new fair value measurements, but the application of this statement could change current practices in determining fair value. The Company adopted this guidance effective January 1, 2008. See Note 14 — Fair Value Measurements for more information on SFAS No. 157.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company did not apply the provisions of SFAS No. 157 to the nonfinancial assets and nonfinancial liabilities within the scope of FSP FAS 157-2. The effect is not expected to be significant in 2009.

In October 2008, the FASB issued FSP No. FAS 157-3, "Determining the Fair Value of a Financial Asset when the Market for that Asset is Not Active" ("FSP FAS 157-3"). This FSP clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in the determination of the fair value of a financial asset when the market for that asset is not active. FSP FAS 157-3 was effective upon issuance and did not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities — including an amendment of FAS No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A company should report unrealized gains and losses on items for which the fair value option has been elected in earnings. This statement also establishes presentation and disclosure requirements designed to facilitate

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comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. The Company did not elect the fair value option for any financial assets or financial liabilities.

In April 2007, the FASB issued FSP FIN No. 39-1, “Amendment of FIN No. 39” (“FSP FIN 39-1”). This FSP modifies FIN No. 39, “Offsetting of Amounts Related to Certain Contracts”, and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. The Company’s adoption of this guidance, effective January 1, 2008, did not have an effect on the Company’s consolidated financial position or results of operations.

In January 2008, the FASB issued Statement No. 133 Implementation Issue No. E23, “Hedging — General: Issues Involving the Application of the Shortcut Method under Paragraph 68” (“Implementation Issue E23”). Implementation Issue E23 amends SFAS No. 133, paragraph 68 with respect to the conditions that must be met in order to apply the shortcut method for assessing hedge effectiveness. This guidance was effective for hedging relationships designated on or after January 1, 2008. The Company’s adoption of this guidance did not have a material effect on the Company’s consolidated financial position or results of operations.

In September 2008, the FASB issued FSP FAS 133-1 and FIN No. 45-4, “Disclosures about Credit Derivatives and Certain Guarantees” an amendment of SFAS No. 133 and FIN No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP requires sellers of credit derivatives and certain guarantees to disclose (a) the nature of the credit derivative, the reason(s) for entering into the credit derivative, approximate term, performance triggers, and the current status of the performance risk; (b) the undiscounted maximum potential amount of future payments the seller could be required to make before considering any recoveries from recourse provisions or collateral; (c) the credit derivative’s fair value; (d) the nature of any recourse provisions and any collateral assets held to ensure performance. This FSP also requires the above disclosures for hybrid instruments that contain embedded derivatives and amends paragraph 13 of FIN 45 to require disclosure of the current status of the guarantee’s performance risk. This FSP is effective for the Company’s 2008 annual consolidated financial statements.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, “Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities.” This FSP requires enhanced disclosures about transfers of financial assets and interests in variable interest entities. This FSP is effective for interim and annual reporting periods ending after December 15, 2008. Accordingly, the Company adopted this guidance effective December 31, 2008. Since this FSP requires only additional disclosures concerning transfers of financial assets and interests in variable interest entities, adoption of the FSP did not affect the Company’s consolidated financial position or results of operations. The disclosures required by this FSP are provided in Note 4.

In January 2009, the FASB issued FSP EITF 99-20-1, “Amendments to the Impairment Guidance of EITF Issue No. 99-20.” This FSP revises other-than-temporary-impairment guidance for beneficial interests in securitized financial assets that are within the scope of Issue 99-20. This FSP is effective for interim and annual reporting periods ending after December 15, 2008. The Company’s adoption of this guidance did not have a material effect on the Company’s consolidated financial position or results of operations.

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

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adoption of FIN No. 48, as of January 1, 2007, resulted in a decrease to retained earnings and an increase to the Company's tax liability of \$39 million.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140". This statement removes an exception from the requirement to bifurcate an embedded derivative feature from a beneficial interest in securitized financial assets. This statement also provides an irrevocable election to measure at fair value an entire hybrid financial instrument that contains an embedded derivative requiring bifurcation, on an instrument-by-instrument basis, rather than measuring only the embedded derivative on a fair value basis. The Company has used the exception for investments made in securitized financial assets in the normal course of operations, and thus has not previously had to consider whether such investments contain an embedded derivative. The new requirement to identify embedded derivatives in beneficial interests is required to be applied on a prospective basis only to beneficial interests acquired, issued, or subject to certain remeasurement conditions after the adoption date of the new guidance. The Company adopted SFAS No. 155 effective January 1, 2007. The Company's adoption of SFAS No. 155 did not have a material effect on the Company's consolidated financial statements. The Company elected to measure at fair value certain financial instruments that contained an embedded derivative that would otherwise require bifurcation. These amounts were included in fixed maturities — trading securities in the accompanying Consolidated Balance Sheet and totaled \$48 million and \$64 million at December 31, 2008 and 2007, respectively.

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 05-1, "Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts ("SOP 05-1)". SOP 05-1 provides guidance on accounting by insurance enterprises for DAC on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. Under SOP 05-1, exchanges of deferred annuity contracts are generally considered substantially unchanged contracts and DAC is not written off. Prior to the adoption of SOP 05-1, the Company accounted for exchanges of deferred annuities as replacements and wrote off the DAC. The Company adopted SOP 05-1 on January 1, 2007, which resulted in an increase to retained earnings of \$13 million, net of income taxes.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161") — an amendment of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement amends and expands the disclosure requirements of SFAS 133 with the intent to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and; (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the impact of SFAS No. 161 on the notes to consolidated financial statements.

In February 2008, the FASB issued FSP FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." The FSP provides recognition and derecognition guidance for a repurchase financing transaction, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties, that is entered into contemporaneously with or in contemplation of, the initial transfer. The FSP is effective for fiscal years beginning after November 15, 2008. The FSP is to be applied prospectively to new transactions entered into after the adoption date. This guidance is not expected to impact the Company's consolidated financial statements upon adoption effective January 1, 2009.

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In November 2005, the FASB issued FSP No. 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. It also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The Company adopted this guidance effective January 1, 2006, and it did not have a material effect on the Company’s Consolidated Statement of Income.

**NOTE 4 — INVESTMENTS**

*Fixed Maturities*

The amortized cost and estimated fair value of fixed maturities as of December 31, 2008 and 2007, by contractual maturity, is presented below (in millions). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	<u>2008</u>		<u>2007</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>Available-for-Sale</u>				
Due in one year or less . . . . .	\$ 1,485	\$ 1,464	\$ 145	\$ 145
Due after one year through five years . . . . .	12,417	11,626	8,176	8,279
Due after five years through ten years . . . . .	9,160	8,009	12,243	12,181
Due after ten years . . . . .	4,049	3,869	5,896	6,043
Mortgage and asset-backed securities:				
U.S. Government or U.S. Government agency . . . . .	671	690	1,512	1,509
Other mortgage-backed securities . . . . .	13,342	11,923	7,949	7,999
Other asset-backed securities . . . . .	4,333	3,670	3,597	3,549
Redeemable preferred securities . . . . .	<u>76</u>	<u>57</u>	<u>95</u>	<u>94</u>
<b>Total available-for-sale . . . . .</b>	<b><u>\$45,533</u></b>	<b><u>\$41,308</u></b>	<b><u>\$39,613</u></b>	<b><u>\$39,799</u></b>

At December 31, 2008 and 2007, the distribution of gross unrealized gains and losses on investments in fixed maturities was as follows (in millions):

	<u>2008</u>			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>Available-for-Sale</u>				
U.S. Treasury and U.S. Government corporations and agencies . . . . .	\$ 2,432	\$148	\$ 5	\$ 2,575
U.S. agencies, state and municipal . . . . .	88	1	10	79
Foreign governments . . . . .	577	87	14	650
Corporate . . . . .	24,685	272	2,603	22,354
Mortgage-backed securities . . . . .	13,342	242	1,661	11,923
Asset-backed securities . . . . .	4,333	13	676	3,670
Redeemable preferred securities . . . . .	<u>76</u>	<u>—</u>	<u>19</u>	<u>57</u>
<b>Total available-for-sale . . . . .</b>	<b><u>\$45,533</u></b>	<b><u>\$763</u></b>	<b><u>\$4,988</u></b>	<b><u>\$41,308</u></b>

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<u>Available-for-Sale</u>	2007			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
U.S. Treasury and U.S. Government corporations and agencies . . . . .	\$ 2,984	\$ 43	\$ 14	\$ 3,013
U.S. agencies, state and municipal . . . . .	66	10	—	76
Foreign governments . . . . .	581	53	2	632
Corporate . . . . .	24,341	513	418	24,436
Mortgage-backed securities . . . . .	7,949	122	72	7,999
Asset-backed securities . . . . .	3,597	28	76	3,549
Redeemable preferred securities . . . . .	<u>95</u>	<u>1</u>	<u>2</u>	<u>94</u>
<b>Total available-for-sale . . . . .</b>	<b><u>\$39,613</u></b>	<b><u>\$770</u></b>	<b><u>\$584</u></b>	<b><u>\$39,799</u></b>

At December 31, 2008, the Company had \$10 million in contractual obligations to acquire additional private placement securities. At December 31, 2007, the Company had no outstanding contractual obligations to acquire additional private placement securities.

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

Investments in bonds that have been non-income producing for the last twelve months totaled less than \$1 million at December 31, 2008. These investments have been deemed other than temporarily impaired. At December 31, 2007, there were no investments in bonds that have been non-income producing for the last twelve months.

***Equity Securities***

At December 31, 2008 and 2007, the distribution of gross unrealized gains and losses on 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>
<b>2008 . . . . .</b>	\$1,096	\$39	\$2	\$1,133
<b>2007 . . . . .</b>	\$ 12	\$ 5	\$2	\$ 15

***Mortgage Loans***

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

At December 31, 2008 and 2007, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to \$109 million and \$106 million, respectively, at fixed and floating interest rates ranging from 2.28% to 7.00% in 2008, and fixed and floating interest rates ranging from 5.4% to 6.1% in 2007. 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.

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At December 31, 2008 and 2007, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	<u>2008</u>		<u>2007</u>	
	<u>Carrying Value</u>	<u>% of Total</u>	<u>Carrying Value</u>	<u>% of Total</u>
<b>Property Type:</b>				
Office buildings . . . . .	\$1,637	29.0%	\$1,285	24.7%
Residential . . . . .	1,134	20.1%	1,322	25.4%
Retail facilities . . . . .	986	17.4%	882	16.9%
Apartment buildings . . . . .	931	16.5%	895	17.2%
Industrial . . . . .	905	16.0%	809	15.5%
Other . . . . .	<u>60</u>	<u>1.0%</u>	<u>15</u>	<u>0.3%</u>
<b>Total</b> . . . . .	<u><u>\$5,653</u></u>	<u><u>100.0%</u></u>	<u><u>\$5,208</u></u>	<u><u>100.0%</u></u>
<b>Geographic Region:</b>				
Central . . . . .	\$1,574	27.9%	\$1,453	27.9%
Pacific . . . . .	1,508	26.7%	1,398	26.8%
South Atlantic . . . . .	1,251	22.1%	1,131	21.7%
Middle Atlantic . . . . .	1,093	19.3%	982	18.9%
New England . . . . .	227	4.0%	244	4.7%
Other . . . . .	<u>—</u>	<u>0.0%</u>	<u>—</u>	<u>0.0%</u>
<b>Total</b> . . . . .	<u><u>\$5,653</u></u>	<u><u>100.0%</u></u>	<u><u>\$5,208</u></u>	<u><u>100.0%</u></u>

The activity in the mortgage loan specific and general reserves as of December 31, 2008 and 2007 was summarized below (in millions):

	<u>2008</u>	<u>2007</u>
Beginning balance . . . . .	\$ 9	\$7
Additions charged to operations . . . . .	<u>4</u>	<u>2</u>
<b>Ending balance</b> . . . . .	<u><u>\$13</u></u>	<u><u>\$9</u></u>

***Other Investments***

The components of other investments as of December 31, 2008 and 2007 were as follows (in millions):

	<u>2008</u>	<u>2007</u>
New York Life Short Term Fund . . . . .	\$ 698	\$191
Collateralized third party loans . . . . .	353	155
Limited partnerships/Limited liability companies . . . . .	332	230
Derivatives . . . . .	118	59
Real estate . . . . .	1	11
Collateral support agreements . . . . .	<u>13</u>	<u>2</u>
<b>Total other investments</b> . . . . .	<u><u>\$1,515</u></u>	<u><u>\$648</u></u>

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The New York Life Short Term Fund (“STIF”) was formed by New York Life to improve short-term returns through greater flexibility to choose attractive maturities and enhanced portfolio diversification. The STIF is a commingled fund managed by New York Life Investment Management LLC (“New York Life Investments”), an indirect wholly owned subsidiary of New York Life, where all participants are subsidiaries or affiliates of New York Life.

Net unrealized investment losses on limited partnerships and limited liability companies that do not apply specialized industry company accounting aggregated \$8 million and \$10 million for the years ended December 31, 2008 and 2007, respectively, and were recorded as a component of accumulated other comprehensive income in the accompanying Consolidated Balance Sheet.

There was no accumulated depreciation on real estate for December 31, 2008. Accumulated depreciation on real estate was \$6 million for December 31, 2007. Depreciation expense for the years ended December 31, 2008, 2007 and 2006 totaled less than \$1 million and was recorded as a component of net investment income in the accompanying Consolidated Statement of Income.

Unfunded commitments on limited partnerships, limited liability companies, and collateralized third party loans amounted to \$671 million and \$125 million at December 31, 2008 and 2007, respectively.

***Variable Interest Entities***

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

The Company generally performed an expected loss/return analysis for those CDOs sponsored by an affiliate to determine whether it was the primary beneficiary in the CDO. Using a Top-Down method, the cash flows are allocated to each variable interest based on seniority for each of the probability weighted cash flow scenarios used to determine an entity’s expected losses. The expected losses and expected residual returns of each variable interest holder from each cash flow scenario are then aggregated to determine which party (if any) absorbs the majority of the total expected losses or has the rights to the majority of the total expected residual returns. The Company was determined not to be the primary beneficiary of the VIE invested in as of December 31, 2008 and 2007. The investments in these CDOs are included in asset-backed securitizations (\$6 million) and equity in asset-backed securitizations (\$2 million) in the table below.

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

The Company performed a qualitative analysis to determine if the subordination features would result in the Company absorbing a majority of the expected losses of the issuing entity. In reviewing the deal documents including trust agreements, limited partnership agreements, and purchase agreements, the Company determined that they are not the primary beneficiary of any structured investment.

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The following table presents the Company's maximum exposure to loss relating to investments it holds that are deemed significant variable interests at December 31, 2008 and 2007 (in millions):

	<b>Maximum Exposure to Loss</b>	
	<u>2008</u>	<u>2007</u>
Asset-backed securitizations . . . . .	\$22	\$ 25
Private placement structured notes . . . . .	61	82
Other investments:		
Equity in asset-backed securitizations . . . . .	2	15
Limited partnerships . . . . .	<u>2</u>	<u>6</u>
<b>Total . . . . .</b>	<u>\$87</u>	<u>\$128</u>

These VIEs did not require consolidation because management determined that the Company was not the primary beneficiary. Accordingly, these VIEs are subject to ongoing review for impairment and for events that may cause management to reconsider whether or not it is the primary beneficiary of these VIEs. Investments in these VIEs represent the maximum exposure to losses from the Company's direct involvement with the VIEs. The Company has no additional economic interest in the VIEs in the form of derivatives, commitments, related guarantees, credit enhancement or similar instruments and obligations nor did it provide any additional financial or other support during the year.

***Restricted Assets and Special Deposits***

Assets of \$4 million at December 31, 2008 and 2007 were on deposit with governmental authorities or trustees as required by certain state insurance laws and are included in available-for-sale fixed maturities 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, 2008, 2007 and 2006 were as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Fixed maturities . . . . .	\$2,458	\$2,308	\$2,179
Equity securities . . . . .	6	8	5
Mortgage loans . . . . .	316	271	239
Policy loans . . . . .	52	48	46
Other investments . . . . .	<u>1</u>	<u>54</u>	<u>32</u>
Gross investment income . . . . .	2,833	2,689	2,501
Investment expenses . . . . .	<u>(78)</u>	<u>(111)</u>	<u>(101)</u>
<b>Net investment income . . . . .</b>	<u>\$2,755</u>	<u>\$2,578</u>	<u>\$2,400</u>

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For the years ended December 31, 2008, 2007 and 2006, net investment losses were as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Fixed maturities .....	\$(404)	\$(70)	\$(28)
Equity securities .....	(8)	7	(8)
Mortgage loans .....	(4)	(2)	(1)
Derivative instruments .....	11	5	(6)
Other investments .....	(1)	(6)	2
<b>Net investment losses</b> .....	<b>\$(406)</b>	<b>\$(66)</b>	<b>\$(41)</b>

The net losses on fixed maturity trading securities amounted to \$11 million for December 31, 2008. The net losses on both fixed maturity trading securities and equity trading securities amounted to \$4 million for both December 31, 2007 and 2006. Trading gains and losses are included in net investment losses in the accompanying Consolidated Statement of Income.

Realized gains on sales of available-for-sale fixed maturities were \$131 million, \$100 million and \$67 million for the years ended December 31, 2008, 2007 and 2006, respectively; and realized losses were \$193 million, \$114 million and \$100 million, respectively.

Losses from other-than-temporary impairments on fixed maturities (included in net investment losses on fixed maturities in the above table) were \$331 million, \$51 million and \$3 million for the years ended December 31, 2008, 2007 and 2006, respectively. Losses from other-than-temporary impairments in equity securities (included in net investment losses on equity securities above) were \$9 million for December 31, 2008, less than \$1 million for December 31, 2007 and \$2 million for December 31, 2006.

The following table presents the Company's gross unrealized losses and fair values for fixed maturities and equities with unrealized losses that are deemed to be only temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008 and 2007 (in millions):

	<b>2008</b>					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed Maturities</b>						
U.S. Treasury and U.S. Government corporations and agencies .....	\$ 156	\$ 2	\$ 20	\$ 3	\$ 176	\$ 5
U.S. agencies, state and municipal . . .	42	9	3	1	45	10
Foreign governments .....	56	12	14	2	70	14
Corporate .....	10,994	1,189	4,514	1,415	15,508	2,604
Mortgage-backed securities .....	3,546	1,022	1,236	639	4,782	1,661
Asset-backed securities .....	2,544	377	809	299	3,353	676
Redeemable preferred securities . . . . .	22	7	35	11	57	18
<b>Total temporarily impaired fixed maturities</b> .....	<b>17,360</b>	<b>2,618</b>	<b>6,631</b>	<b>2,370</b>	<b>23,991</b>	<b>4,988</b>
<b>Equities</b>						
Common stock .....	44	2	—	—	44	2
<b>Total temporarily impaired equities</b> .....	<b>44</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>44</b>	<b>2</b>
<b>Total temporarily impaired securities</b> .....	<b>\$17,404</b>	<b>\$2,620</b>	<b>\$6,631</b>	<b>\$2,370</b>	<b>\$24,035</b>	<b>\$4,990</b>

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	2007					
	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed Maturities</b>						
U.S. Treasury and U.S. Government corporations and agencies . . . . .	\$ 86	\$ 1	\$ 879	\$ 13	\$ 965	\$ 14
U.S. agencies, state and municipal . . .	—	—	7	—	7	—
Foreign governments . . . . .	19	1	44	1	63	2
Corporate . . . . .	3,795	152	7,297	266	11,092	418
Mortgage-backed securities . . . . .	1,186	34	1,540	38	2,726	72
Asset-backed securities . . . . .	1,212	46	876	30	2,088	76
Redeemable preferred securities . . . . .	<u>1</u>	<u>—</u>	<u>44</u>	<u>2</u>	<u>45</u>	<u>2</u>
<b>Total temporarily impaired fixed maturities . . . . .</b>	<u>6,299</u>	<u>234</u>	<u>10,687</u>	<u>350</u>	<u>16,986</u>	<u>584</u>
<b>Equities</b>						
Common stock . . . . .	<u>5</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>2</u>
<b>Total temporarily impaired equities . . . . .</b>	<u>5</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>2</u>
<b>Total temporarily impaired securities . . . . .</b>	<u>\$6,304</u>	<u>\$236</u>	<u>\$10,687</u>	<u>\$350</u>	<u>\$16,991</u>	<u>\$586</u>

At December 31, 2008, fixed maturities represented nearly 100% of the Company's total unrealized loss amount, which was comprised of approximately 4,103 different securities. Equity securities comprise less than 1% of the Company's total unrealized loss amount, consisting of 241 securities.

Fixed maturities that were in a continuous unrealized loss position for less than twelve months at December 31, 2008, totaled \$2,618 million or 52% of the Company's total fixed maturities unrealized losses, and securities in a continuous unrealized loss position greater than twelve months totaled \$2,370 million or 48% of the Company's total fixed maturities unrealized losses. Of the total amount of fixed maturities unrealized losses, \$3,903 million or 78% is related to unrealized losses on investment grade securities. Investment grade is defined as a security having a credit rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); or a comparable internal rating if an externally provided rating is not available. Unrealized losses on fixed maturity securities with a rating below investment grade represent \$1,086 million or 22% of the Company's total fixed maturities unrealized losses.

The amount of gross unrealized losses for fixed maturities where the fair value had declined 20% or more of amortized cost totaled \$3,521 million. The amount of time that each of these securities has continuously been 20% or more below amortized cost consist of \$3,137 for 6 months or less, \$361 million for greater than 6 months through 12 months, and \$23 million for greater than 12 months. In accordance with the Company's impairment policy, the Company performed quantitative and qualitative "money-good" analysis to determine if the decline was temporary. For those securities where the decline was considered temporary, the Company did not take an impairment when it had the ability and intent to hold until recovery.

Despite a decline in interest rates during the latter half of 2008, credit spreads widened significantly during the same period as the market experienced a flight to quality securities. The declining U.S. housing market, global

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credit crisis, U.S. recession and declining global economy all contributed to the increase in the number of securities with fair values below amortized cost and in the amount of unrealized losses as follows:

*Corporate Bonds.* Unrealized losses on corporate bonds were \$2,604 million or 52% of the total unrealized losses for fixed maturities. The amount of unrealized losses on the Company's investment in corporate bonds is spread over 2,571 individual securities with varying interest rates and maturities. Corporate securities with a fair value below 80% of the security's amortized cost totaled \$1,634 million or 33% of the total unrealized losses on fixed maturities. General market volatility, liquidity concerns, a slowing economy and credit deterioration in certain sectors caused significant credit spread widening and contributed to the unrealized losses. While the losses were spread across all industry sectors, the largest sectors with unrealized losses on securities with a fair value below 80% of the security's amortized cost include Real Estate Investment Trusts ("REITs") (\$380 million), building products (\$139 million), gaming and leisure (\$120 million), utilities (\$94 million), and finance (\$91 million). These securities are evaluated in accordance with the Company's impairment policy. Because the securities continue to meet their contractual payments and the Company has the ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value, the Company did not consider these investments to be other than temporarily impaired.

*Mortgage-Backed Securities.* Unrealized losses on mortgage-backed securities were \$1,661 million or 33% percent of the total unrealized losses for fixed maturities. These losses are spread across approximately 839 fixed and variable rate investment grade securities. Mortgage-backed securities that were priced below 80% of the security's amortized cost represented \$1,412 million or 85% of total unrealized losses on mortgage — backed securities. The majority of our holdings (approximately 99%) are investment grade and management believes all deals remain well collateralized. The Company measures its mortgage-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. For securities rated below AA, when the fair value of a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired and a realized loss is recognized in net investment losses in the accompanying Consolidated Statement of Income. The Company also evaluates mortgage-backed securities for other than temporary impairments in accordance with our impairment policy using cash flow modeling techniques coupled with an evaluation of facts and circumstances. The Company has the ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value, therefore the Company did not consider these investments to be other than temporarily impaired.

*Asset-Backed Securities.* Unrealized losses on asset-backed securities were \$676 million or 14% of the total unrealized losses for fixed maturities. These losses are spread across approximately 644 securities. Similar to mortgage-backed securities, the Company measures its asset-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. For securities rated below AA, when the fair value of a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired and a realized loss is recognized in net investment losses in the accompanying Consolidated Statement of Income. The Company also evaluates asset-backed securities for other-than-temporary impairments based on facts and circumstances and in accordance with our impairment policy. Asset-backed securities that were priced below 80% of the security's amortized cost represented \$442 million or 65% of the total unrealized losses for asset-backed securities. The Company had the ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value, therefore, the Company did not consider these investments to be other than temporarily impaired.

***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

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(losses) during the current year and are included in net investment losses in the accompanying Consolidated Statement of Income.

The amounts for the years ended December 31, 2008, 2007 and 2006 are as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net unrealized investment gains, beginning of the year . . . . .	\$ 95	\$ 77	\$ 231
Changes in net unrealized investment (losses) gains attributable to:			
Investments:			
Net unrealized investment (losses) gains arising during the period . . .	(2,665)	41	(217)
Less: Reclassification adjustments for (losses) gains included in net income . . . . .	<u>153</u>	<u>15</u>	<u>(1)</u>
Change in net unrealized investment (losses) gains, net of adjustments . . . . .	(2,818)	26	(216)
Impact of net unrealized investment (losses) gains on:			
DAC . . . . .	593	(14)	55
Policyholders' account balances and future policy benefits . . . . .	(42)	9	4
Other assets (deferred sales inducements) . . . . .	<u>35</u>	<u>(3)</u>	<u>3</u>
Change in net unrealized investment (losses) gains . . . . .	<u>(2,232)</u>	<u>18</u>	<u>(154)</u>
<b>Net unrealized investment (losses) gains, end of year . . . . .</b>	<b><u>\$(2,137)</u></b>	<b><u>\$ 95</u></b>	<b><u>\$ 77</u></b>

Net unrealized investment (losses) gains arising during the period reported in the preceding table for the years ended December 31, 2008, 2007 and 2006 are net of income tax (benefit) expense of \$(1,435) million, \$22 million and \$(117) million, respectively.

Reclassification adjustments reported in the preceding table for the years ended December 31, 2008, 2007 and 2006 are net of income tax expense (benefit) of \$82 million, \$8 million and less than \$(1) million respectively.

DAC in the preceding table for the years ended December 31, 2008, 2007 and 2006 are net of income tax expense (benefit) of \$319 million, \$(8) million and \$29 million, respectively.

Policyholders' account balances and future policy benefits reported in the preceding table for the years ended December 31, 2008, 2007 and 2006 are net of income tax expense (benefit) of \$(23) million, \$5 million and \$2 million, respectively.

Other assets (deferred sales inducements) in the preceding table for the years ended December 31, 2008, 2007 and 2006 are net of income tax expense (benefit) of \$19 million, \$(1) million, and \$2 million, respectively.

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The components of net unrealized investment gains (losses) reported in other comprehensive income at December 31, 2008, 2007 and 2006 are as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net unrealized investment (losses) gains . . . . .	\$(4,158)	\$177	\$137
Impact of net unrealized investment (losses) gains on:			
DAC . . . . .	871	(41)	(19)
Policyholders' account balance and future policy benefits . . . . .	(56)	9	(5)
Other assets (deferred sales inducements) . . . . .	55	1	5
Deferred taxes . . . . .	<u>1,151</u>	<u>(51)</u>	<u>(41)</u>
<b>Total net unrealized investment (losses) gains . . . . .</b>	<b><u>\$(2,137)</u></b>	<b><u>\$ 95</u></b>	<b><u>\$ 77</u></b>

**NOTE 6 — POLICYHOLDERS' LIABILITIES**

*Policyholders' Account Balances*

Policyholders' account balances at December 31, 2008 and 2007 were as follows (in millions):

	<u>2008</u>	<u>2007</u>
Deferred annuities . . . . .	\$28,776	\$23,950
Universal life contracts . . . . .	18,870	18,180
Supplementary contracts without life contingencies . . . . .	282	287
Unearned revenue liability . . . . .	371	270
Guaranteed Minimum Accumulation Benefit . . . . .	316	72
Other . . . . .	<u>151</u>	<u>36</u>
<b>Total policyholders' account balances . . . . .</b>	<b><u>\$48,766</u></b>	<b><u>\$42,795</u></b>

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.

Unearned revenue liability represents amounts that have been assessed to compensate the insurer for services to be performed over future periods.

The Guaranteed Minimum Accumulation Benefit is the fair value of embedded derivatives on deferred annuity contracts.

At December 31, 2008 and 2007, of the total policyholders' account balances of \$48,766 million and \$42,795 million, respectively, the total amounts related to policyholders' account balances that have surrender privileges were \$47,927 million and \$42,416 million, respectively. The amounts payable in cash to policyholders at December 31, 2008 and 2007 were \$46,263 million and \$40,884 million, respectively.

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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, 2008:

<u>Product</u>	<u>Interest Rate</u>	<u>Withdrawal/Surrender Charges</u>
Deferred annuities . . . . .	2.40% to 10.00%	Surrender charges 0% to 10% for up to 10 years.
Annuities Certain . . . . .	1.60% to 5.00%	No surrender or withdrawal charges.
Universal life contracts . . . . .	3.05% to 6.04%	Various up to 19 years.
Supplementary contracts without life contingencies . . . . .	3.50%	No surrender or withdrawal charges.

***Future Policy Benefits***

Future policy benefits at December 31, 2008 and 2007 were as follows (in millions):

	<u>2008</u>	<u>2007</u>
Life insurance:		
Taiwan business — 100% coinsured . . . . .	\$ 702	\$ 968
Other life . . . . .	<u>94</u>	<u>75</u>
Total life insurance . . . . .	796	1,043
Individual and group payout annuities . . . . .	2,870	1,680
Other contract liabilities . . . . .	<u>67</u>	<u>43</u>
<b>Total future policy benefits . . . . .</b>	<b><u>\$3,733</u></b>	<b><u>\$2,766</u></b>

At December 31, 2008 and 2007, of the total future policy benefits of \$3,733 million and \$2,766 million, respectively, the total amounts related to policies that have surrender privileges were \$732 million and \$260 million, respectively. The amounts payable in cash to policyholders at December 31, 2008 and 2007 were \$732 million and \$260 million, respectively.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves at December 31, 2008:

<u>Product</u>	<u>Mortality</u>	<u>Interest Rate</u>	<u>Estimation Method</u>
Life insurance: Taiwan business- 100% coinsured	Based upon best estimates at time of policy issuance with provision for adverse deviations ("PAD").	3.80% - 7.50%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD.
Individual and group payout annuities	Based upon best estimates at time of policy issuance with PAD.	4.37% - 9.50%	Present value of expected future payments at a rate expected at issue with PAD.

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***Guaranteed Minimum Benefits***

At December 31, 2008 and 2007, the Company had the following variable contracts with guarantees. (Note that the Company's variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive). For guarantees of amounts in the event of death, the net amount at risk is defined as the current guaranteed minimum death benefit ("GMDB") in excess of the current account balance at the balance sheet date. For guarantees of accumulation balances, the net amount at risk is defined as GMAB minus the current account balance.

***Variable Annuity Contracts — GMDB and GMAB***

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

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

The following chart provides the account value, net amount at risk and average attained age of contract holders at December 31, 2008 and 2007 for GMDB and GMAB (\$ in millions):

	2008		
	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value . . . . .	\$3,470	\$1,498	\$9,940
Net amount at risk . . . . .	\$ 588	\$ 468	\$3,101
Average attained age of contractholders . . . . .	53	54	55
	2007		
	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value . . . . .	\$4,635	\$1,808	\$13,989
Net amount at risk . . . . .	\$ 11	\$ 5	\$ 168
Average attained age of contractholders . . . . .	56	54	56

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

	<u>GMDB</u>	<u>GMAB</u>	<u>Totals</u>
Balance at January 1, 2006 . . . . .	\$ 30	\$ 9	\$ 39
Incurred guarantee benefits . . . . .	4	(2)	2
Paid guarantee benefits . . . . .	<u>(3)</u>	<u>—</u>	<u>(3)</u>
Balance at December 31, 2006 . . . . .	31	7	38
Incurred guarantee benefits . . . . .	13	65	78
Paid guarantee benefits . . . . .	<u>(2)</u>	<u>—</u>	<u>(2)</u>
Balance at December 31, 2007 . . . . .	42	72	114
Incurred guarantee benefits . . . . .	33	244	277
Paid guarantee benefits . . . . .	<u>(10)</u>	<u>—</u>	<u>(10)</u>
<b>Balance at December 31, 2008 . . . . .</b>	<b><u>\$ 65</u></b>	<b><u>\$316</u></b>	<b><u>\$381</u></b>

For GMABs, incurred guaranteed minimum benefits incorporates all changes in fair value other than amounts resulting from paid guarantee benefits. GMABs are considered to be derivatives under SFAS No. 149 and are recognized at fair value through interest credited to policyholders' account balances in the accompanying Consolidated Statement of Income (refer to Note 14 — Fair Value Measurements for discussion on the assumptions).

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to policyholder benefits in the accompanying Consolidated Statement of Income, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following assumptions and methodology were used to determine the GMDB liability at December 31, 2008 and 2007:

- Data used was 1,000 stochastically generated investment performance scenarios.
- Mean investment performance assumption ranged from 3.14% to 10.89% for 2008 and 0.77% to 7.50% for 2007.
- Volatility assumption was 13.08% for 2008 and 14.62% for 2007.
- Mortality was assumed to be 91.00% of the A2000 table for both 2008 and 2007.
- Lapse rates vary by contract type and duration and range from 0.50% to 30.00%, with an average of 8.10% for 2008, and 0.50% to 30.00%, with an average of 12.00% for 2007.
- Discount rates ranged from 6.01% to 7.61% for 2008 and 5.26% to 7.61% for 2007.

The following table presents the aggregate fair value of assets at December 31, 2008 and 2007, by major investment fund options (including the general and separate account fund options), held by variable annuity products that are subject to GMDB and GMAB benefits and guarantees. Since variable contracts with GMDB

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guarantees may also offer GMAB guarantees in each contract, the GMDB and GMAB amounts listed are not mutually exclusive (in millions):

	2008		2007	
	GMDB	GMAB	GMDB	GMAB
Separate Account:				
Equity . . . . .	\$ 5,367	\$ 804	\$ 9,417	\$1,169
Fixed income . . . . .	1,782	191	2,177	184
Balanced . . . . .	1,550	162	2,063	162
General Account . . . . .	4,711	341	4,967	293
<b>Total</b> . . . . .	<b>\$13,410</b>	<b>\$1,498</b>	<b>\$18,624</b>	<b>\$1,808</b>

***SOP 03-1 Liability for Individual Life Products***

SOP 03-1 provides guidance for calculating additional liabilities for contracts with excess insurance benefit features. These excess insurance benefit features are generally those that result in profits in early years and losses in subsequent years. For the Company's individual life contracts, SOP 03-1 primarily affects universal life policies with cost of insurance charges that are significantly less than the expected mortality costs in the intermediate and later policy durations.

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

The following table summarizes the SOP 03-1 liability for excess insurance benefit features reflected in the general account in future policy benefits at December 31, 2008 and 2007 (in millions):

	2008	2007
Beginning balance . . . . .	\$29	\$23
Net liability increase . . . . .	12	6
Ending balance . . . . .	\$41	\$29

**NOTE 7 — SEPARATE ACCOUNTS**

The Company maintains twenty separate accounts for its variable deferred annuity and variable life products; nine of these are registered with the SEC. The assets of these separate accounts represent investments in shares of the New York Life sponsored Mainstay VP Series Funds and other non-proprietary funds. The assets in separate accounts for December 31, 2008 and 2007 are as follows (in millions):

	2008	2007
Registered . . . . .	\$12,271	\$18,340
Non-registered . . . . .	610	753
<b>Total separate account assets</b> . . . . .	<b>\$12,881</b>	<b>\$19,093</b>

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**NOTE 8 — DEFERRED POLICY ACQUISITION COSTS AND SALES INDUCEMENTS**

An analysis of DAC for the years ended December 31, 2008, 2007 and 2006 is as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$3,431	\$3,310	\$2,978
Cumulative effect of accounting change, pre-tax (SOP 05-1) . . . . .	<u>—</u>	<u>15</u>	<u>—</u>
Balance at beginning of year, as adjusted . . . . .	3,431	3,325	2,978
Current year additions . . . . .	673	560	593
Amortized during year . . . . .	<u>(349)</u>	<u>(432)</u>	<u>(345)</u>
Change during year . . . . .	324	128	248
Balance at end of year before related adjustments . . . . .	3,755	3,453	3,226
Adjustment for change in unrealized investment gains . . . . .	<u>912</u>	<u>(22)</u>	<u>84</u>
<b>Balance at end of year . . . . .</b>	<b><u>\$4,667</u></b>	<b><u>\$3,431</u></b>	<b><u>\$3,310</u></b>

***Sales Inducements***

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year . . . . .	\$272	\$228	\$230
Cumulative effect of accounting change, pre-tax (SOP 05-1) . . . . .	<u>—</u>	<u>6</u>	<u>—</u>
Balance at beginning of year, as adjusted . . . . .	272	234	230
Current year additions . . . . .	64	90	37
Amortized during year . . . . .	<u>(59)</u>	<u>(48)</u>	<u>(44)</u>
Adjustment for change in unrealized investment gains . . . . .	<u>54</u>	<u>(4)</u>	<u>5</u>
<b>Balance at end of year . . . . .</b>	<b><u>\$331</u></b>	<b><u>\$272</u></b>	<b><u>\$228</u></b>

**NOTE 9 — INCOME TAXES**

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current:			
Federal . . . . .	\$(167)	\$154	\$ 85
State and local . . . . .	<u>—</u>	<u>4</u>	<u>1</u>
	(167)	158	86
Deferred:			
Federal . . . . .	<u>104</u>	<u>1</u>	<u>52</u>
<b>Income tax expense (benefit) . . . . .</b>	<b><u>\$ (63)</u></b>	<b><u>\$159</u></b>	<b><u>\$138</u></b>

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The components of the net deferred tax asset (liability) reported in other assets and other liabilities in the accompanying Consolidated Balance Sheet as of December 31, 2008 and 2007 are as follows (in millions):

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Future policyholder benefits . . . . .	\$ 663	\$ 669
Employee and agents benefits . . . . .	59	61
Investments . . . . .	1,474	—
Other . . . . .	<u>21</u>	<u>16</u>
Gross deferred tax assets . . . . .	<u>2,217</u>	<u>746</u>
Deferred tax liabilities:		
DAC . . . . .	1,398	964
Investments . . . . .	<u>—</u>	<u>60</u>
Gross deferred tax liabilities . . . . .	<u>1,398</u>	<u>1,024</u>
<b>Net deferred tax asset (liability)</b> . . . . .	<u>\$ 819</u>	<u>\$ (278)</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. The Company's management has concluded that the deferred tax assets are more likely than not to be realized. Therefore, no valuation allowance has been provided.

Below is a reconciliation of the statutory federal income tax rate to the effective tax rate for 2008, 2007 and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutory federal income tax rate . . . . .	35.0%	35.0%	35.0%
Tax exempt income . . . . .	149.4%	(4.7)%	(4.9)%
Uncertain tax position . . . . .	(7.5)%	2.8%	0.0%
Investment credits . . . . .	14.8%	(0.8)%	(0.3)%
Other . . . . .	<u>4.5%</u>	<u>0.5%</u>	<u>0.0%</u>
<b>Effective tax rate</b> . . . . .	<u>196.2%</u>	<u>32.8%</u>	<u>29.8%</u>

Pursuant to the tax allocation agreement discussed in Note 3 — Recent Accounting Pronouncements, as of December 31, 2008 and 2007, the Company had recorded an income tax receivable/(payable) from New York Life of \$85 million and \$(95) million, respectively, included in other assets and other liabilities in the accompanying Consolidated Balance Sheet.

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

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A reconciliation of the beginning and ending amount of unrecognized tax benefits at December 31, 2008 and 2007 are as follows (in millions):

	<b>Total Unrecognized Tax Benefits</b>	
	<b>2008</b>	<b>2007</b>
<b>Beginning of Period Balance</b> . . . . .	\$107	\$ 94
Reductions for tax positions of prior years . . . . .	(1)	(1)
Additions for tax positions of current year . . . . .	24	14
Settlements with tax authorities . . . . .	(14)	—
<b>End of Period Balance</b> . . . . .	<b>\$116</b>	<b>\$107</b>

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate as of December 31, 2008 and 2007 is \$43 million and \$42 million, respectively. Total interest and penalties for the years ended December 31, 2008 and 2007, aggregated \$8 million and \$10 million, respectively, and are included in income tax (benefit) expense in the accompanying Consolidated Statement of Income. At December 31, 2008 and 2007, the Company had accrued \$36 million and \$33 million, respectively, of liabilities for tax-related interest, which is reported on the accompanying Consolidated Balance Sheet (included in other liabilities). The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

**NOTE 10 — REINSURANCE**

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk and to be able to issue life insurance policies in excess of its retention limits. Currently, the Company reinsures the mortality risk on new life insurance policies on a quota-share yearly renewable term basis for almost all products. The Company had typically retained 10% of each risk until 2005 when it began retaining larger shares on many products. The quota-share retained now ranges from 10% to 63% and most products are fully retained if the policy size is less than \$1 million. Most of the reinsured business is on an automatic basis. Cases in excess of the Company's retention and certain substandard cases are reinsured facultatively. The Company does not have any individual life reinsurance agreements that do not transfer risk or contain risk-limiting features.

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 losses from reinsurer insolvencies. When necessary, an allowance is recorded for reinsurance the Company cannot collect. Three reinsurance companies account for approximately 74% and 72% of the reinsurance ceded to non-affiliates at December 31, 2008 and 2007, respectively.

In December 2004, the Company reinsured 90% of a block of inforce life insurance business, consisting of Universal Life, Variable Universal Life (VUL), Target Life and Asset Preserver, with New York Life. The agreement used a combination of coinsurance with funds withheld for the fixed portion maintained in the general account and modified coinsurance (MODCO) for the VUL policies in the Separate Accounts. Under both the MODCO and Funds Withheld treaties, the Company will retain the assets held in relation to the policyholders' account balances and separate account liabilities. An experience refund will be paid to the Company at the end of each quarterly accounting period for 100% of the profits in excess of \$5 million per year. Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" Implementation Issue No. B36, "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments that Incorporate Credit Risk Exposures that are Unrelated or Only Partially Related to Creditworthiness of the Obligor under those Instruments", the Funds Withheld and the MODCO treaties, along with the experience rating refund represents an embedded derivative, which is required to be carried at fair value. The fair value of this embedded derivative approximated \$9 million and

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\$4 million for December 31, 2008 and 2007, respectively, and is included in amounts recoverable from reinsurer in the accompanying Consolidated Balance Sheet. The change in fair value of this embedded derivative was \$5 million, \$1 million and \$3 million for the years ended December 31, 2008, 2007 and 2006, respectively, and is included in net revenue from reinsurance in the accompanying Consolidated Statement of Income.

In connection with the above described reinsurance agreement with New York Life, the Company recorded a deferred gain of \$244 million, which includes the \$25 million purchase price and \$219 million of GAAP reserves recoverable from the reinsurer in excess of the funds withheld liability. For the years ended December 31, 2008, 2007 and 2006, \$75 million, \$44 million and \$54 million, respectively, of the deferred gain was amortized and is included in net revenue from reinsurance in the accompanying Consolidated Statement of Income. The effect of this affiliated reinsurance agreement for the years ended December 31, 2008, 2007 and 2006 was as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Fees-universal life policies ceded . . . . .	\$ 305	\$ 317	\$ 341
Net revenue from reinsurance . . . . .	\$ 211	\$ 204	\$ 210
Policyholders' benefits ceded . . . . .	\$ 95	\$ 110	\$ 130
Amounts recoverable from reinsurer . . . . .	\$5,692	\$5,455	\$5,238
Amounts payable to reinsurer . . . . .	\$5,653	\$5,349	\$5,089
Other liabilities (deferred gain, net of amortization) . . . . .	\$ 51	\$ 126	\$ 170

Effective July 1, 2002, the Company transferred the Taiwan branch's insurance book of business to an affiliated company, New York Life Insurance Taiwan Corporation ("NYLT"), an indirect wholly owned subsidiary of New York Life. The Company is jointly liable with NYLT for two years from the giving of notice to all obligees for all matured obligations and for two years after the maturity date of not-yet matured obligations. NYLT is also contractually liable, under indemnification provisions of the transaction, for any liabilities that may be asserted against the Company. The transfer of the branch's net assets was accounted for as a long-duration coinsurance transaction. Under this accounting treatment, the insurance related liabilities remain on the books of the Company and an offsetting reinsurance recoverable is established. Additionally, premiums and benefits associated with any business sold prior to July 1, 2002 are reflected in the Company's accompanying Consolidated Statement of Income.

Accordingly, the Company recorded the following with respect to this transaction (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Amounts recoverable from reinsurer . . . . .	\$702	\$968	\$1,055
Premiums ceded . . . . .	\$ 74	\$121	\$ 158
Benefits ceded . . . . .	\$367	\$214	\$ 81

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The effects of all reinsurance for the years ended December 31, 2008, 2007 and 2006 were as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Premiums:			
Direct . . . . .	\$1,447	\$ 976	\$ 723
Assumed . . . . .	2	1	1
Ceded . . . . .	<u>(75)</u>	<u>(122)</u>	<u>(159)</u>
Net premiums . . . . .	<u>\$1,374</u>	<u>\$ 855</u>	<u>\$ 565</u>
Fees-universal life and annuity policies ceded . . . . .	<u>\$ 539</u>	<u>\$ 515</u>	<u>\$ 509</u>
Net revenue from reinsurance . . . . .	<u>\$ 206</u>	<u>\$ 206</u>	<u>\$ 214</u>
Policyholders' benefits ceded . . . . .	<u>\$ 704</u>	<u>\$ 522</u>	<u>\$ 350</u>
Increase in ceded liabilities for future policyholder benefits . . . . .	<u>\$ 16</u>	<u>\$ 11</u>	<u>\$ 8</u>
Amounts recoverable from reinsurer . . . . .	<u>\$6,604</u>	<u>\$6,601</u>	<u>\$6,432</u>
Amounts payable to reinsurer . . . . .	<u>\$5,686</u>	<u>\$5,379</u>	<u>\$5,114</u>
Other liabilities (deferred gain, net of amortization) . . . . .	<u>\$ 51</u>	<u>\$ 126</u>	<u>\$ 170</u>

**NOTE 11 — DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company uses derivative financial instruments to manage interest rate, currency, credit and market risk. These derivative financial instruments include interest rate and equity options as well as interest rate, currency and credit default swaps. The Company does not engage in derivative financial instrument transactions for speculative purposes.

The Company deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. The Company has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties. The Company uses netting arrangements incorporated in master agreements and collateral support agreements with counterparties and adjusts transaction levels, when appropriate, to minimize risk.

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

In September 2008, one of our derivative counterparties, Lehman Brothers Special Financing Inc. ("Lehman Brothers"), filed for chapter 11 bankruptcy. As a result, the Company terminated all derivative contracts with Lehman Brothers prior to their scheduled maturity dates. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), a gain of \$5 million, which represents the effective portion of hedging contracts at the date they were de-designated, was recorded in accumulated other comprehensive income. The gains will be reclassified into net investment losses when the hedged forecasted transactions occur. A gain from the ineffective portion of the hedge transactions of \$2 million, along with the gain on contracts that did not qualify for hedge accounting of \$3 million, resulted in an aggregated realized gain of \$5 million in net investment losses in the accompanying Consolidated Statement of Income.

Notional or contractual amounts of derivative financial instruments provide a measure of involvement in these types of transactions and do not represent the amounts exchanged between the parties engaged in the transaction.

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The amounts exchanged are determined by reference to the notional amounts and other terms of the derivative financial instruments, which relate to interest rates, exchange rates, or other financial indices.

The following table presents the notional and fair value of derivative financial instruments for the years ended December 31, 2008 and 2007 (in millions):

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Notional Value</u>	<u>Fair Value</u>	<u>Notional Value</u>	<u>Fair Value</u>
Interest rate swaps . . . . .	\$ 318	\$ 27	\$ 1,183	\$ 12
Currency swaps . . . . .	101	7	129	(14)
Equity options . . . . .	239	61	315	19
Interest rate options . . . . .	17,975	6	19,050	27
Credit default swaps . . . . .	13	(1)	1	—
<b>Total . . . . .</b>	<u>\$18,646</u>	<u>\$100</u>	<u>\$20,678</u>	<u>\$ 44</u>

The notional and fair value amounts by type of hedge designation for the years ended December 31, 2008 and 2007 is as follows (in millions):

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Notional Value</u>	<u>Fair Value</u>	<u>Notional Value</u>	<u>Fair Value</u>
Fair value hedges . . . . .	\$ —	\$ —	\$ —	\$—
Cash flow hedges . . . . .	178	30	245	—
Non-qualifying derivatives . . . . .	18,468	70	20,433	44
<b>Total . . . . .</b>	<u>\$18,646</u>	<u>\$100</u>	<u>\$20,678</u>	<u>\$44</u>

For the years ended December 31, 2008 and 2007, there were no net investment gains or losses related to the ineffective portion of fair value hedges.

During 2008 and 2007, there were no fair value hedges that discontinued hedge accounting treatment due to ineffectiveness.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Other comprehensive income (loss) balance at the beginning of the year . . . . .	\$ (2)	\$ 2	\$ 7
Gains (losses) deferred in other comprehensive income on the effective portion of cash flow hedges . . . . .	31	(5)	(7)
Gains reclassified to net income . . . . .	<u>6</u>	<u>1</u>	<u>2</u>
Other comprehensive income (loss) balance at the end of the year . . . . .	<u>\$35</u>	<u>\$(2)</u>	<u>\$ 2</u>

The ineffective portion of cash flow hedges totaled less than \$1 million for year ended December 31, 2008. For the years ended December 31, 2007, and 2006, the ineffective portion of the cash flow hedges was less than \$1 million. All components of each derivative's gains or losses were included in the assessment of hedge ineffectiveness. There were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transactions did not occur on the anticipated date or in the additional time period permitted by SFAS No. 149. There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments.

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For cash flow hedges, the estimated amount of existing gains and losses that are reported in accumulated other comprehensive income at December 31, 2008 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 less than \$1 million.

The Company has derivative instruments that do not qualify for hedge accounting treatment, which include interest rate corridor and equity options and various interest rate swaps. Derivatives that do not qualify for hedge accounting are carried at fair value with changes in value included in net investment gains and losses. For the years ended December 31, 2008, 2007 and 2006, the Company included in net investment losses in the accompanying Consolidated Statement of Income \$10 million, \$16 million and \$(6) million, respectively, for changes in fair value related to derivatives that do not qualify for hedge accounting.

As of December 31, 2008 and 2007, there were no embedded derivatives that could not be separated from their host contracts.

**NOTE 12 — COMMITMENTS AND CONTINGENCIES**

***Litigation***

The Company is a defendant in individual and/or alleged class action suits arising from its agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, and/or other operations, including actions involving retail sales practices. Most of these actions seek substantial or unspecified compensatory and punitive damages. The Company is 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. In the U.S. these associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed life insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets.

The Company has received notification of the insolvency of various life insurers. It is expected that these insolvencies will result in remaining guaranty fund assessments against the Company of approximately \$10 million, which have been accrued in other liabilities in the accompanying Consolidated Balance Sheet.

***Loaned Securities and Repurchase Agreements***

The Company participates in a securities lending program for the purpose of enhancing income on certain securities held. At December 31, 2008 and 2007, \$1,152 million and \$1,625 million, respectively, of the Company's fixed maturity 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, 2008 and 2007, the Company recorded cash collateral received under these agreements of \$1,197 million and \$1,656 million, respectively, and established a corresponding liability for the same amount, which is included in other liabilities in the accompanying Consolidated Balance Sheet. The Company did not hold collateral in the form of securities at December 31, 2008 or 2007.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

The Company enters into agreements to purchase and resell securities, and agreements to sell and repurchase securities for the purpose of enhancing income on the securities portfolio. At December 31, 2008 and 2007, the Company had agreements to purchase and resell securities totaling \$185 million and \$682 million at an average coupon rate of 0.02% and 4.20%, respectively. At December 31, 2008, the Company had agreements to sell and repurchase securities totaling \$36 million at an average coupon rate of 5.09%. At December 31, 2007, the Company had agreements to sell and repurchase securities totaling \$2 million at an average coupon rate of 4.50%.

**NOTE 13 — RELATED PARTY TRANSACTIONS**

The Company has significant transactions with New York Life and its affiliates. Because of these relationships, it is possible that the terms of the transactions are not the same as those that would result from transactions among wholly unrelated parties.

New York Life provides the Company with services and facilities for the sale of insurance and other activities related to the business of insurance. New York Life charges the Company for the identified costs associated with these services and facilities under the terms of an administrative service agreement between New York Life and the Company. Such costs, amounting to \$668 million, \$629 million and \$624 million for the years ended December 31, 2008, 2007 and 2006, respectively, are reflected in operating expenses and net investment income in the accompanying Consolidated Statement of Income.

In 2008, the Company received a \$1,218 million capital contribution in the form of securities and cash transferred to it by New York Life. The securities consisted of unaffiliated common stock having a fair value of \$902 million, and fixed maturities having a fair value of \$301 million. Cash and receivables transferred amounted to \$15 million.

The Company is a party to an affiliated group air transportation service agreement entered into with NYLIFE LLC, a direct wholly owned subsidiary of New York Life, in November 2004. Under the terms of the agreement the Company, in conjunction with certain specified affiliates, leases an aircraft from NYLIFE LLC. Costs associated with the lease are determined on a fully allocated basis and allotted to the parties based on usage. For the years ended December 31, 2008, 2007 and 2006, the Company's share of expenses associated with the lease of the aircraft was \$1 million. The agreement expires in November 2009, with automatic one-year renewals, unless terminated earlier.

The Company has entered into an investment advisory and administrative services agreement with New York Life Investments whereby New York Life Investments provide investment advisory services to the Company. At December 31, 2008, 2007 and 2006, the total cost for these services amounted to \$46 million, \$41 million and \$40 million, respectively, which are included in the costs of services billed by New York Life to the Company, as noted above.

In addition, New York Life Investments has an Investment Advisory Agreement with the Mainstay VP Series Fund, Inc. (the "Fund"), a registered investment company whose shares are sold to various separate accounts of the Company. New York Life Investments, the administrator of the Fund, and the Company have entered into agreements regarding administrative services to be provided by the Company. Under the terms of the agreement, New York Life Investments pays the Company administrative fees for providing services to the Fund. The Company recorded fee income from New York Life Investments for the years ended December 31, 2008, 2007 and 2006 of \$15 million, \$17 million, and \$15 million, respectively.

At December 31, 2008 and 2007, the Company had a net liability of \$295 million and \$197 million, respectively, for the above-described services, which are included in other liabilities in the accompanying Consolidated Balance Sheet. The terms of the settlement generally require that these amounts be settled in cash within ninety days.

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To satisfy its obligations under certain structured settlement agreements with unaffiliated insurance companies, beneficiaries and other non-affiliated entities, the Company owns certain single premium annuities issued by New York Life. The carrying value of the annuity contracts is based upon the actuarially determined value of the obligations under the structured settlement contracts, which generally have some life contingent benefits. The obligations are based upon the actuarially determined present value of expected future payments. Interest rates used in establishing such obligations range from 5.02% to 7.81%. At December 31, 2008 and 2007, the carrying value of the interest in annuity contracts and the obligations under structured settlement agreements in the accompanying Consolidated Balance Sheet amounted to \$4,716 million and \$4,468 million, respectively. The Company has directed New York Life to make the payments under the annuity contracts directly to the payees under the structured settlement agreements.

In addition, the Company has issued certain annuity contracts to New York Life in order that New York Life may satisfy its third party obligations under certain structured settlement agreements. Interest rates used in establishing such obligations range from 5.84% to 6.30%. The Company has been directed by New York Life to make the payments under the annuity contracts directly to the beneficiaries under these structured settlement agreements. At December 31, 2008 and 2007, the amount of outstanding reserves on these contracts included in future policy benefits was \$178 million and \$184 million, respectively.

The Company has a variable product distribution agreement with NYLIFE Distributors, an indirect wholly owned subsidiary of New York Life, granting NYLIFE Distributors the exclusive right to distribute, and be the principal underwriter of the Company's variable product policies. NYLIFE Distributors has an agreement with NYLIFE Securities, another indirect wholly owned subsidiary of New York Life, under which registered representatives of NYLIFE Securities solicit sales of these policies. In connection with this agreement, the Company incurred commission expense to NYLIFE Securities' registered representatives of \$86 million, \$111 million and \$92 million, for the years ended December 31, 2008, 2007 and 2006, respectively.

In addition, the Company entered into a service fee agreement with NYLIFE Securities effective July 1, 2008, whereby NYLIFE Securities charges the Company a fee for management and supervisory services rendered in connection with variable life and variable annuity sales and in-force business. For the year ended December 31, 2008, the Company incurred an expense of \$14 million under this new agreement. At December 31, 2008, the Company recorded a payable to NYLIFE Securities of less than \$1 million under this new agreement.

The Company has a credit agreement with New York Life, dated April 1, 1999, wherein New York Life can borrow funds from the Company. The maximum amount available to New York Life is \$490 million. No outstanding balance was due to the Company at December 31, 2008 or December 31, 2007.

The Company also has a credit agreement with New York Life, dated September 30, 1993, in which the Company can borrow up to \$490 million. During 2008 and 2007, the credit facility was not used, no interest was paid and no outstanding balance was due.

As an alternative credit facility to the foregoing credit arrangement with New York Life, on December 23, 2004, the Company entered into a credit agreement with New York Life Capital Corporation ("Capital Corporation"), an indirect wholly owned subsidiary of New York Life, in which the Company can borrow up to \$490 million. As of December 31, 2008 and 2007 there was no outstanding balance due to Capital Corporation. There was no interest expense for 2008. Interest expense for 2007 and 2006 was \$1 million and \$5 million, respectively.

During August 2003, the Company transferred without recourse several private placement debt securities to Madison Capital Funding LLC ("MCF"). MCF is an indirect wholly owned subsidiary of New York Life. MCF paid for the purchase price of the securities transferred by delivering to the Company promissory notes with terms identical to the securities transferred. At December 31, 2008 and 2007, the Company had recorded a receivable from

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

MCF, included in other assets, of \$5 million. The Company received interest payments from MCF of less than \$1 million for the years ended December 31, 2008, 2007 and 2006.

The Company has a participation agreement with MCF, which allows with the Company to purchase collateralized loans to third parties underwritten by MCF. Under the participation agreement, NYLIAC assumes the performance risk on these loans with no recourse against MCF. In 2008 the Company purchased certain loans from MCF with a commitment amount of \$269 million. In 2007, the Company purchased certain loans from MCF with a commitment amount of \$88 million. These loans are reported in other investments in the accompanying Consolidated Balance Sheet.

The Company has an arrangement with New York Life whereby a policyholder may convert a New York Life term policy or term rider to a Target Life policy issued by the Company, without any additional underwriting. As compensation for this arrangement, the Company recorded other income of \$4 million, \$15 million and \$14 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company has an arrangement with NYLIFE Insurance Company of Arizona (“NYLAZ”), a wholly owned subsidiary of New York Life, whereby a policyholder may convert a NYLAZ term policy to a permanent cash value life insurance policy issued by the Company without any additional underwriting. As compensation for this arrangement, the Company recorded other income of \$2 million from NYLAZ for the year ended December 31, 2008.

The Company has issued various Corporate Owned Life Insurance policies to New York Life for the purpose of informally funding certain benefits for New York Life employees and agents. These policies were issued on the same basis as policies sold to unrelated customers. As of December 31, 2008 and 2007, the Company recorded liabilities of approximately \$2,363 million and \$2,395 million, respectively, which are included in policyholders’ account balances and separate account liabilities in the accompanying Consolidated Balance Sheet.

The Company has also issued various Corporate Owned Life Insurance policies to separate Voluntary Employees’ Beneficiary Association (VEBA) trusts formed for the benefit of New York Life’s retired employees and agents. These policies were issued on the same basis as policies sold to unrelated customers. As of December 31, 2008 and 2007, policyholders’ account balances and separate account liabilities related to these policies aggregated \$243 million and \$313 million, respectively.

The Company has an agreement with NYLINK Insurance Agency Incorporated (“NYLINK”), an indirect wholly owned subsidiary of New York Life, granting NYLINK the right to solicit applications for the Company’s products through NYLINK’s subagents. For the year ended December 31, 2008, the Company recorded commission and fee expense to NYLINK agents of \$3 million. For the years ended December 31, 2007 and 2006, the Company recorded commission and fee expense to NYLINK agents of \$6 million.

Effective December 31, 2004, the Company entered into a reinsurance agreement with New York Life (see Note 10 — Reinsurance for more details).

Effective July 1, 2002, the Company transferred its Taiwan branch insurance book of business to NYLT, which is accounted for as a long-duration coinsurance transaction (see Note 10 — Reinsurance for more details).

**NOTE 14 — FAIR VALUE MEASUREMENTS**

As discussed in Note 3 — Recent Accounting Pronouncements, SFAS No. 157 defines fair value and establishes a framework for measuring fair value that includes a three level hierarchy. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair

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value measurements falls is determined based on the lowest level input that is significant to the fair value measurements.

The Company applied the provisions of SFAS No. 157 prospectively to assets and liabilities measured at fair value. The adoption of SFAS No. 157 changed the valuation of freestanding derivatives as well as some embedded derivatives in insurance contracts. The change in valuation resulted from the inclusion of the Company's own credit standing, as well as that of the counterparty, in the valuation. The Company's adoption of SFAS No. 157 did not materially impact the fair values of other financial instruments.

The levels of the fair value hierarchy are based on the inputs to the valuation as follows:

- Level 1** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. This would include active exchange-traded equity and derivative securities, certain cash equivalents and open-ended mutual funds with a daily net asset value ("NAV") and no restrictions.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other model driven inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 includes U.S. Government and agency mortgage-backed debt securities, corporate debt securities, cash equivalents and short-term securities, certain private placements, and certain derivative contracts. Fair value for the fixed maturities in this category are priced principally by independent pricing services or by internal models using observable inputs. Fair values for derivatives, in this category, are priced by internal models using observable inputs.
- Level 3** Instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurements. These inputs reflect management's own assumptions in pricing the asset or liability. Pricing may also be based upon broker quotes that do not represent an offer to transact. Examples include certain private equity investments, certain asset-backed and mortgage-backed securities, certain highly structured securities, and embedded derivatives in insurance contracts.

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The following table represents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 (in millions):

	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total</u>
<b>Assets:</b>				
Fixed maturities:				
Available-for-sale . . . . .	\$ —	\$39,538	\$1,770	\$41,308
Trading . . . . .	—	16	36	52
Equity securities:				
Available-for-sale . . . . .	1,130	2	1	1,133
Other investments <sup>1</sup> . . . . .	—	114	4	118
Cash and cash equivalents . . . . .	4	864	—	868
Amounts recoverable from reinsurers . . . . .	—	—	9	9
Separate account assets . . . . .	<u>9,038</u>	<u>3,693</u>	<u>150</u>	<u>12,881</u>
<b>Total assets accounted for at fair value on a recurring basis . . . . .</b>	<b><u>\$10,172</u></b>	<b><u>\$44,227</u></b>	<b><u>\$1,970</u></b>	<b><u>\$56,369</u></b>
<b>Liabilities:</b>				
Policyholders' account balances <sup>2</sup> . . . . .	—	—	316	316
Other liabilities <sup>1</sup> . . . . .	<u>—</u>	<u>17</u>	<u>1</u>	<u>18</u>
<b>Total liabilities accounted for at fair value on a recurring basis . . . . .</b>	<b><u>\$ —</u></b>	<b><u>\$ 17</u></b>	<b><u>\$ 317</u></b>	<b><u>\$ 334</u></b>

<sup>1</sup> Other investments and other liabilities consist of derivatives.

<sup>2</sup> Policyholder account balances represent embedded derivatives bifurcated from host contracts.

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The table below presents a reconciliation of all Level 3 assets and liabilities for the year ended December 31, 2008 (in millions):

	Assets					
	Fixed Maturities, Available -for-sale	Fixed Maturities, Trading Securities	Equity Securities Unaffiliated, Available -for-sale	Other Investments	Amounts Recoverable from Reinsurers	Separate Account Assets
<b>Fair value, beginning of year</b> . . . . .	\$1,731	\$52	\$ 3	\$(1)	\$ 3	\$ —
Total gains (losses) (realized/unrealized):						
Included in earnings						
Net investment income <sup>1</sup> . . . . .	5	1	—	—	—	—
Net investment gains (losses) . . . . .	(54)	(9)	(8)	—	—	(75)
Other income . . . . .	—	—	—	—	6	—
Interest credited to policyholders' account balances . . . . .	—	—	—	—	—	—
Other comprehensive income . . . . .	(297)	—	—	5	—	—
Purchases, sales, issuances, and settlements . . . . .	173	(4)	1	—	—	67
Transfers into (out of) Level 3 <sup>2</sup> . . . . .	212	(4)	5	—	—	158
<b>Fair value, end of year</b> . . . . .	<u>\$1,770</u>	<u>\$36</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 9</u>	<u>\$150</u>

	Liabilities	
	Poliyholders' Account Balances	Other Liabilities
<b>Fair value, beginning of year</b> . . . . .	\$ 72	\$—
Total gains (losses) (realized/unrealized):		
Included in earnings		
Net investment income <sup>1</sup> . . . . .	—	—
Net investment gains (losses) . . . . .	—	1
Other income . . . . .	—	—
Interest credited to policyholders' account balances . . . . .	236	—
Other comprehensive income . . . . .	—	—
Purchases, sales, issuances, and settlements . . . . .	8	—
Transfers into (out of) Level 3 <sup>2</sup> . . . . .	—	—
<b>Fair value, end of year</b> . . . . .	<u>\$316</u>	<u>\$ 1</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into (out of) Level 3 are reported at the value as of beginning of the year in which the transfer occurred.

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**Transfers**

Net transfers into Level 3 for fixed maturities available-for-sale totaled \$212 million during the year ended December 31, 2008. Transfers into Level 3 for these investments were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes in place of previous observable information from third party pricing services or internal models. Partially offsetting these transfers into Level 3 were transfers out of Level 3 due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets.

The table below includes the unrealized gains (losses) for the year ended December 31, 2008 by category for Level 3 assets and liabilities still held at December 31, 2008 (in millions):

	Assets						Liabilities	
	Fixed Maturities, Available-for-sale	Fixed Maturities, Trading Securities	Equity Securities Unaffiliated, Available-for-sale	Other Investments	Amounts Recoverable From Reinsurer	Separate Account Assets	Policyholders' Account Balances	Other Liabilities
<b>Earnings:</b>								
Net investment income . . . . .	\$ 4	\$ 1	\$—	\$—	\$—	\$ —	\$ —	
Net investments gains (losses) <sup>3</sup> . . . . .	(54)	(10)	(8)	—	—	(75)	(1)	
Other income . . . . .	—	—	—	—	6	—	—	
Interest credited to policyholders' account balance . . . . .	—	—	—	—	—	—	—	
Other comprehensive income . . . . .	(296)	—	—	5	—	—	—	
<b>Total Change in unrealized gains (losses) . . . . .</b>	<b><u>\$ (346)</u></b>	<b><u>\$ (9)</u></b>	<b><u>\$ (8)</u></b>	<b><u>\$ 5</u></b>	<b><u>\$ 6</u></b>	<b><u>\$ (75)</u></b>	<b><u>\$ (1)</u></b>	
<b>Earnings:</b>								
Net investment income . . . . .						\$ —	\$ —	
Net investments gains (losses) <sup>3</sup> . . . . .						—	(1)	
Other income . . . . .						—	—	
Interest credited to policyholders' account balance . . . . .						237	—	
Other comprehensive income . . . . .						—	—	
<b>Total Change in unrealized gains (losses) . . . . .</b>						<b><u>\$ 237</u></b>	<b><u>\$ (1)</u></b>	

<sup>3</sup> The net investment gains and losses included for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. Separate account liabilities are not included in the above table, as they are reported at contract value and not fair value in the accompanying Consolidated Balance Sheet.

**Determination of Fair Values**

The Company has an established and well-documented process for determining fair value. The following is a description of the valuation methodologies used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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***Fixed Maturity and Equity Securities***

The fair value of fixed maturity and equity securities is determined by considering one of three primary sources. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from third party pricing services, the remaining un-priced securities are submitted to independent brokers for prices and lastly, securities are priced using an internal pricing model.

Prices from a third party pricing vendor based on unadjusted quotes from an active market are classified as Level 1 within the fair value hierarchy. These generally include exchange-traded equity securities. An active market is defined as a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Prices from a third party pricing vendor for securities that are not traded on an exchange are generally valued using a discounted cash-flow model or a market approach. Typical inputs used by these pricing sources include, but are not limited to; benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds. The Company has determined that these inputs are market observable and such prices are generally classified into Level 2 of the fair value hierarchy.

Broker quotes are non-binding and are generally considered Level 3.

Prices from pricing services and broker quotes are validated on an ongoing basis to ensure the adequacy and reliability of the fair value measurements. The Company performs both quantitative and qualitative analysis of the prices including initial and ongoing review of third party pricing methodologies, back testing of recent trades, and a thorough review of pricing trends and statistics.

Independent pricing vendors do not cover private placement securities. These securities are priced by an internally developed model based upon assigned comparable public issues adjusted for liquidity, maturity and rating. The Company assigns a credit rating based upon internal analysis. Private placement securities are generally classified in Level 2 of the fair value hierarchy. Where adjustments for liquidity are considered significant to the overall price, private placements are then classified in Level 3.

Also, certain securities are priced based upon internal valuations using significant unobservable inputs and are considered Level 3.

***Derivative Instruments***

Derivative instruments are reported on the Consolidated Balance Sheet at fair value and are reported in Other Investments or Other Liabilities. Derivative instruments generally are fair valued using pricing valuation models, which utilize observable market data. The remaining derivatives are either exchange-traded or priced by broker quotations.

Derivative instruments classified as Level 1 in the fair value hierarchy include certain option contracts that are traded on an active exchange.

Derivative instruments classified as Level 2 primarily include interest rate, currency, and certain credit default swaps, currency forwards and options. Over-the-counter (“OTC”) derivatives are privately negotiated financial contracts and are fair valued using market-based inputs to models. Where models are used, the selection of a particular model depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. For OTC derivatives that trade in liquid markets, such as currency forwards, swaps and options, model inputs are observable in the market for substantially the full term and can be verified. Such instruments are classified within Level 2 of the fair value hierarchy.

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OTC derivatives that are currently valued using broker quotations are classified within Level 3 of the fair value hierarchy.

Valuations of OTC derivatives are adjusted for non-performance risk. The Company uses default estimates implied by credit default swap spreads on senior obligations of the counterparty in order to provide an objective basis for such estimates. When in a liability position, the Company uses its own medium term note spread to estimate the default rate.

***Cash Equivalents***

Cash equivalents carried at fair value include money market funds, Treasury bills, commercial paper and other highly liquid instruments. Money market funds are valued using a daily NAV and therefore, are classified as Level 1. The remaining instruments are generally not traded in active markets, however their fair value are based on observable inputs and therefore they are classified as Level 2 within the fair value hierarchy.

***Separate Account Assets***

Separate account assets are carried at fair value and reported as a summarized total on the Consolidated Balance Sheet in accordance with SOP 03-1, “Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long Duration Contracts and for Separate Accounts” (“SOP 03-1”). Assets within the separate account are primarily invested in mutual funds, equities and limited partnerships. The separate account assets are valued and assigned within the fair value hierarchy, consistent with the methodologies described herein for similar financial instruments held within the general account of the Company.

***Policyholders’ Account Balances***

Policyholders’ account balances consist of embedded derivatives bifurcated from host contracts. Included is the embedded derivative for GMAB.

The fair values of GMAB liabilities are calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. The expected cash flows are discounted using the swap rate plus a spread based upon the Company’s medium term notes. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models. Significant inputs to these models include capital market assumptions, such as interest rate, equity market, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the liability valuation, the liability included in policyholders’ account balances has been reflected within Level 3 of our fair value hierarchy.

***Non-recurring Fair Value Measurements***

As discussed in Note 3 — Recent Accounting Pronouncements, the Company elected to defer the provisions of SFAS No. 157 related to the non-financial assets and non-financial liabilities within the scope of FSP FAS No. 157-2.

***Fair Value of Other Financial Instruments***

SFAS No. 107, “Disclosures about Fair Value of Financial Instruments”, requires disclosure of fair value information of financial instruments whether or not fair value is recognized in the Consolidated Balance Sheet, for which it is practicable to estimate fair value.

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The carrying value and estimated fair value of instruments not otherwise disclosed in Note 4 of the Notes to the Consolidated Financial Statements at December 31, 2008 and 2007 are presented below (in millions):

	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets</b>				
Mortgage loans . . . . .	\$ 5,653	\$ 5,274	\$ 5,208	\$ 5,234
Collateralized third party commercial loans . . . . .	353	342	155	155
Securities purchased under agreements to resell . . . . .	185	185	682	682
<b>Liabilities</b>				
Policyholders' account balances — investment contracts . . . . .	25,637	24,193	20,502	20,502
Collateral received on securities lending and repurchase agreements . . . . .	1,197	1,197	1,656	1,656

For mortgage loans, 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.

For collateralized third party loans the estimated fair value for the loan portfolio at December 31, 2008 is based on prevailing interest rate spreads in the market. Fair value was calculated by discounting future cash flows using prevailing interest rates on similar loans. At December 31, 2007, fair value was considered to approximate carrying value as the spreads reflected market conditions at that time.

Due to the short-term nature (generally one month) of securities purchased under agreements to resell, the asset's carrying value approximates fair value.

For policyholders' account balances — investment contracts, such as supplementary contracts without life contingencies and other deposit type contracts, account value approximates fair value. For fixed deferred annuities, fair value is based upon a stochastic valuation using risk neutral assumptions for financial variables and Company specific assumptions for lapses, mortality and expenses. For 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. At December 31, 2007, fair value was considered to approximate carrying value.

For collateral received on securities lending and repurchase agreements included on the accompanying Consolidated Balance Sheet, the carrying value of the liability approximates fair value since these borrowings are generally short-term in nature.

**NOTE 15 — SUPPLEMENTAL CASH FLOW INFORMATION**

Income taxes paid were \$13 million, \$146 million and \$78 million during 2008, 2007 and 2006, respectively.

Total interest paid was \$15 million, \$17 million and \$18 million during 2008, 2007 and 2006, respectively.

There was a non-cash capital contribution transaction of \$1,207 million for the year ended December 31, 2008. The capital contributed consisted of \$902 million in equity securities, \$301 million in fixed maturity securities and \$4 million in other assets. Non-cash investing transactions were \$4 million and \$35 million for the years ended December 31, 2007 and 2006, respectively.

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**NOTE 16 — STATUTORY FINANCIAL INFORMATION**

Accounting practices used to prepare statutory financial statements for regulatory filings of life insurance companies differ in certain instances from GAAP. The Delaware Insurance Department (the “Department”) recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, and for determining its solvency under the Delaware Insurance Law. In making such determinations, the Department gives no consideration to financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

The National Association of Insurance Commissioners’ (“NAIC”) *Accounting Practices and Procedures Manual* (“NAIC SAP”) has been adopted as a component of prescribed or permitted practices by the state of Delaware. Prescribed statutory accounting practices include state laws and regulations. Permitted statutory accounting practices encompass accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. The state of Delaware has adopted all prescribed accounting practices found in NAIC SAP. The Company has no permitted practices.

At December 31, 2008 and 2007, statutory stockholder’s equity was \$3,596 million and \$2,650 million, respectively. Statutory net income for the years ended December 31, 2008, 2007 and 2006 was (\$387) million, \$289 million and \$252 million, respectively.

The Company is restricted as to the amounts it may pay as dividends to New York Life. Under Delaware Insurance Law, dividends on capital stock can be distributed only out of earned surplus. Furthermore, without prior approval of the Delaware Insurance Commissioner, dividends cannot be declared or distributed which exceed the greater of ten percent of the Company’s surplus or one hundred percent of net gain from operations. The Company did not pay or declare a dividend to its sole shareholder, New York Life at December 31, 2008 or 2007. As of December 31, 2008, the amount of available and accumulated funds derived from earned surplus from which the Company can pay dividends is \$943 million. The maximum amount of dividends that may be paid in 2009 without prior approval is \$357 million.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholder of  
New York Life Insurance and Annuity Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of stockholder's equity and of cash flows present fairly, in all material respects, the financial position of New York Life Insurance and Annuity Corporation and its subsidiaries (the "Company") at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 13 to the consolidated financial statements, the Company has significant transactions with New York Life Insurance Company and its affiliates. Because of these relationships, it is possible that the terms of the transactions are not the same as those that would result from transactions among wholly unrelated parties.

As described in Note 3 of the consolidated financial statements, the Company changed its method of accounting for uncertainty in income taxes and for deferred acquisition costs in connection with modifications or exchanges of insurance contracts on January 1, 2007.

PricewaterhouseCoopers LLP

New York, New York  
March 18, 2009









**New York Life Insurance Company**

New York Life Insurance and Annuity  
Corporation (A Delaware Corporation)

51 Madison Avenue  
New York, NY 10010

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