

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

DECEMBER 31, 2002 and 2001

Report of Independent Accountants

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

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of equity and of cash flows present fairly, in all material respects, the financial position of New York Life Insurance Company and its subsidiaries (the "Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 7, 2003

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	December 31,	
	2002	2001
	(in millions)	
ASSETS		
Fixed maturities		
Available for sale, at fair value	\$76,901	\$68,083
Held to maturity, at amortized cost	466	395
Trading securities, at fair value	944	-
Equity securities		
Unaffiliated, available for sale, at fair value	2,526	3,045
Affiliated	253	232
Mortgage loans	10,068	9,616
Policy loans	6,267	6,167
Other long-term investments	2,696	2,112
Total investments	<u>100,121</u>	<u>89,650</u>
Cash and cash equivalents	6,650	5,465
Deferred policy acquisition costs	3,812	4,229
Investment income due and accrued	1,204	1,165
Goodwill	497	621
Other assets	4,141	3,556
Separate account assets	12,915	14,056
Total assets	<u>\$129,340</u>	<u>\$118,742</u>
LIABILITIES AND EQUITY		
Liabilities		
Policyholders' account balances	\$40,886	\$35,756
Future policy benefits	47,503	43,994
Dividends payable to policyowners	1,063	1,073
Policy claims	579	513
Debt	2,602	1,924
Other liabilities	8,974	8,230
Separate account liabilities	12,822	13,976
Total liabilities	<u>114,429</u>	<u>105,466</u>
Minority interest	306	188
Equity		
Accumulated other comprehensive income	1,145	644
Retained earnings	13,460	12,444
Total equity	<u>14,605</u>	<u>13,088</u>
Total liabilities and equity	<u>\$129,340</u>	<u>\$118,742</u>

See accompanying notes to consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,	
	2002	2001
	(in millions)	
Revenue		
Premiums	\$7,017	\$6,579
Fees-universal life and annuity policies	577	531
Net investment income	5,782	5,729
Net investment losses	(254)	(141)
Other income	580	491
Total revenue	<u>13,702</u>	<u>13,189</u>
Expenses		
Interest credited to policyholders' account balances	2,041	2,059
Policyholder benefits	4,132	3,949
Increase in liabilities for future policy benefits	2,833	2,620
Operating expenses	2,315	2,161
Dividends to policyholders	1,409	1,530
Total expenses	<u>12,730</u>	<u>12,319</u>
Income from continuing operations before income taxes, minority interest and cumulative effect of a change in accounting principle	972	870
Income tax (benefit) expense	(54)	175
Income from continuing operations before minority interest and cumulative effect of a change in accounting principle	1,026	695
Minority interest	(10)	18
Cumulative effect of a change in accounting principle (net of income tax expense of \$60 million)	-	111
Net income	<u>\$1,016</u>	<u>\$824</u>

See accompanying notes to consolidated financial statements

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES
Consolidated Statement of Equity
Years Ended December 31, 2002 and 2001
(in millions)

	<u>Accumulated Other Comprehensive Income (Loss)</u>					<u>Retained Earnings</u>	<u>Total Equity</u>
	Net				<u>Comprehensive Income (Loss)</u>		
	<u>Foreign Currency Translation Adjustment</u>	<u>Unrealized Investment Gains (Losses)</u>	<u>Minimum Pension Liability Adjustment</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>			
Balance, January 1, 2001	\$ (59)	\$ 419	-	\$ 360	\$ 11,620	\$ 11,980	
Comprehensive income:							
Net income					824	824	
Other comprehensive income, net of tax :							
Cumulative effect of a change in accounting principle, net of tax		(67)		(67)		(67)	
Change in foreign currency translation adjustment	9			9		9	
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		345		345		345	
Minimum pension liability adjustment			(3)	(3)		(3)	
Other comprehensive income						284	
Total comprehensive income						1,108	
Balance, December 31, 2001	<u>(50)</u>	<u>697</u>	<u>(3)</u>	<u>644</u>	<u>12,444</u>	<u>13,088</u>	
Comprehensive income:							
Net income					1,016	1,016	
Other comprehensive income, net of tax :							
Change in foreign currency translation adjustment	(125)			(125)		(125)	
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes		623		623		623	
Minimum pension liability adjustment			3	3		3	
Other comprehensive income						501	
Total comprehensive income						1,517	
Balance, December 31, 2002	<u>\$ (175)</u>	<u>\$ 1,320</u>	<u>\$ -</u>	<u>\$ 1,145</u>	<u>\$ 13,460</u>	<u>\$ 14,605</u>	

See accompanying notes to consolidated financial statements

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

	Year Ended December 31,	
	2002	2001
	(in millions)	
Cash Flows from Operating Activities:		
Net income	\$ 1,016	\$ 824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	(250)	(97)
Net capitalization of deferred policy acquisition costs	(773)	(605)
Universal life and annuity fees	(272)	(244)
Interest credited to policyholders' account balances	2,041	2,059
Other policyholders' account balances	(7)	(23)
Net investment losses	254	141
Equity in earnings of subsidiaries	(47)	(27)
Deferred income taxes	51	63
Cummulative effect of a change in accounting principle	-	(111)
Other	136	(1)
Changes in:		
Net separate account assets	(2)	(35)
Investment income due and accrued	(39)	24
Other assets and other liabilities	(346)	4
Trading securities	75	-
Policy claims	66	88
Future policy benefits	2,865	2,481
Net cash provided by operating activities	4,768	4,541
Cash Flows from Investing Activities:		
Proceeds from:		
Sale of available-for-sale fixed maturities	72,102	81,216
Maturity of available-for-sale fixed maturities	2,203	8,031
Sale of equity securities	2,115	2,250
Repayment of mortgage loans	1,450	1,143
Sale of other invested assets	655	2,092
Cost of:		
Available-for-sale fixed maturities acquired	(81,643)	(94,083)
Held-to-maturity fixed maturities acquired	(44)	(191)
Equity securities acquired	(1,672)	(2,387)
Mortgage loans acquired	(1,907)	(1,361)
Other long term investments acquired	(2,443)	(1,696)
Policy loans	(100)	(200)
Capital expenditures	(10)	(33)
Purchase of subsidiaries, net of cash acquired	16	(286)
Securities sold under agreements to repurchase (net)	781	180
Increase in loaned securities	870	331
Other	-	(6)
Net cash used in investing activities	(7,627)	(5,000)
Cash Flows from Financing Activities:		
Policyholders' account balances:		
Deposits	11,797	11,249
Withdrawals	(7,973)	(8,906)
Net transfers from the separate accounts	(585)	(536)
Net contributions from limited partners	142	124
Proceeds from debt	678	976
Other	-	(4)
Net cash provided by (used) in financing activities	4,059	2,903
Effect of exchange rate changes on cash and cash equivalents	(15)	2
Net increase in cash and cash equivalents	1,185	2,446
Cash and cash equivalents, beginning of year	5,465	3,019
Cash and cash equivalents, end of year	\$ 6,650	\$ 5,465

See accompanying notes to consolidated financial statements

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

December 31, 2002 and 2001

NOTE 1 - NATURE OF OPERATIONS

New York Life Insurance Company and its subsidiaries (“the Company”) offer a wide range of insurance and investment products and services including life insurance, annuities, pension products, mutual funds, and other investments and investment advisory services. The Company is comprised of four primary business operations: Life and Annuity, Investment Management, International operations and Special Markets. Life and Annuity operations are conducted primarily through New York Life Insurance Company, the parent company, and its direct wholly owned subsidiaries New York Life Insurance and Annuity Corporation (“NYLIAC”) and NYLIFE Insurance Company of Arizona (“NYLIFE of Arizona”). Investment Management activities are conducted primarily through the parent company and various registered investment advisory subsidiaries of its direct wholly owned subsidiary, New York Life Investment Management Holdings LLC (“NYLIM Holdings”). The Company markets individual insurance and investment products in Mexico, Taiwan, Hong Kong, India, Philippines, Argentina, Indonesia, South Korea and Thailand through New York Life International, LLC and New York Life International, Inc. (collectively “NYL International”), both direct wholly owned subsidiaries of the parent company. The Company also markets individual life insurance in China through its joint venture, Haier New York Life Insurance Company Limited. In addition, NYL International has representative offices in China and Vietnam and investment funds in India and China. Special Markets conducts its business operations through the parent company.

Basis of Presentation

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

The following reconciles consolidated GAAP net income to the statutory net income of New York Life Insurance Company, as reported to regulatory authorities (in millions):

	<u>2002</u>	<u>2001</u>
Consolidated GAAP net income	\$1,016	\$ 824
Adjustments to GAAP basis for:		
Removal of amortization of deferred acquisition costs ("DAC")	473	459
Re-estimation of future policy benefits and policyholder account balances	38	112
Removal of deferred income taxes	124	74
Policyholder dividends	93	95
Inclusion of dividend income from subsidiaries	-	487
Inclusion of interest maintenance reserve ("IMR") amortization	95	129
Removal of capitalization of DAC	(1,228)	(1,062)
Removal of statutory subsidiaries' net loss	62	131
Removal of GAAP net investment losses	254	141
Removal of cumulative effect of change in accounting principle	-	(111)
Other	<u>1</u>	<u>(85)</u>
Statutory net gain	928	1,194
Statutory net realized capital losses	<u>(400)</u>	<u>(15)</u>
Statutory net income *	<u>\$ 528</u>	<u>\$ 1.179</u>

* Statutory net income includes the net income of New York Life Insurance Company only. Excludes the net loss of its domestic insurance subsidiaries of \$104 million and \$93 million for the years ended December 31, 2002 and 2001, respectively.

Accounting practices used to prepare statutory financial statements for regulatory filings of life insurance companies differ in certain instances from GAAP. The Delaware and Arizona State Insurance Departments, where NYLIAC and NYLIFE of Arizona are domiciled, respectively, have adopted as of January 1, 2001 the National Association of Insurance Commissioners' statutory accounting practices ("NAIC SAP") as the basis of its statutory accounting practices. The New York State Insurance Department, where New York Life is domiciled, has adopted as of January 1, 2001 certain prescribed accounting practices that differ from those found in NAIC SAP.

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

	<u>2002</u>	<u>2001</u>
Consolidated GAAP equity	\$14,605	\$13,088
Adjustments to GAAP basis for:		
Removal of capitalization of DAC	(3,812)	(4,229)
Establishment of IMR	(221)	(132)
Policyholder dividends	(204)	(302)
Removal of unrealized (gains) losses on investments	(4,775)	(829)
Removal of statutory non-admitted assets	(1,206)	(1,027)
Deferred tax asset	101	(718)
Removal of capitalization of goodwill	(428)	(543)
Carrying value of investment in Express Scripts, Inc. ("ESI")	507	148
Re-estimation of future policy benefits and policyholder account balances	3,393	2,405
Decrease in employee benefit liabilities	399	584
Reclassification of surplus notes in statutory surplus	279	279
Other	<u>141</u>	<u>17</u>
Statutory capital**	<u>\$ 8,779</u>	<u>\$ 8,741</u>

**Statutory capital includes statutory surplus and the asset valuation reserve ("AVR") on a consolidated basis of the Company. New York Life Insurance Company's statutory surplus was \$7,986 million and \$7,855 million at December 31, 2002 and 2001, respectively. AVR for New York Life Insurance Company and its domestic insurance subsidiaries was \$793 million and \$886 million at December 31, 2002 and 2001, respectively.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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

Investments

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

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

Unaffiliated equity securities are carried at fair value. The estimated fair value of equity securities has been determined using quoted market prices for publicly traded securities and a matrix pricing model for private placement securities. For equity securities classified as available-for-sale, unrealized gains and losses are reflected in other comprehensive income, net of deferred taxes and related adjustments.

Affiliated equity securities represent holdings in subsidiaries accounted for under the equity method of accounting, with net earnings or losses included in other income in the accompanying Consolidated Statement of Income.

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

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

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

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

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

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

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

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

Loaned Securities and Repurchase Agreements

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

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

Deferred Policy Acquisition Costs

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

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

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

Other Assets and Other Liabilities

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

Recognition of Income and Related Expenses

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

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

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

Policyholders' Dividends

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

Federal Income Taxes

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

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

New York Life Insurance Company files a consolidated federal income tax return with certain of its domestic insurance and non-insurance subsidiaries. The consolidated income tax liability is allocated among the members of the group in accordance with a tax allocation agreement. The tax allocation agreement provides that each member of the group is allocated its share of the consolidated tax provision or benefit, determined generally on a separate company basis, but may, where applicable, recognize the tax benefits of net operating losses or capital losses utilizable in the consolidated group. Intercompany tax balances are settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return.

Separate Accounts

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

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

Fair Value of Financial Instruments

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

Business Risks and Uncertainties

The Company’s investment portfolio consists principally of fixed income securities as well as mortgage loans, policy loans, investments in subsidiaries, limited partnerships, preferred and common stocks and equity real estate. The fair value of the Company’s investments varies depending on economic and market conditions and the interest rate environment. For example, if interest rates rise, the securities in the Company’s fixed-income portfolio generally will decrease in value. If interest rates decline, the securities in the fixed-income portfolio generally will increase in value.

For various reasons, the Company may, from time to time, be required to sell certain investments at a price and a time when their fair value is less than their book value. In addition, mortgage loans, many of which have balloon payment maturities, and equity real estate are generally illiquid and carry a greater risk of investment losses than investment grade fixed maturities. Furthermore, in periods of declining interest rates, bond calls and mortgage prepayments generally increase, resulting in reinvestment at then current market rates.

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

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

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

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

As a mutual life insurance company, the Company is subject to a tax on its equity base ("EBT"). The EBT has been suspended for 3 years beginning with the 2001 tax year. As a result of the suspension, in 2002 the Company released the prior accrual held for the EBT. In the absence of legislation extending the suspension or eliminating this tax, the Company would be subject to this tax beginning in 2004. There can be no assurance whether or when any such legislation will be enacted or what impact a failure to extend the suspension or eliminate the tax would have on the Company's tax liability.

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

Contingencies

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

Foreign Currency Translation

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

Fee Income

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

NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an Amendment to FASB Statement No. 133" ("SFAS 138"). SFAS 133 and SFAS 138 established new accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. SFAS 133 requires that all derivatives be recorded on the balance sheet at their fair value. The treatment of changes in the fair value of derivatives depends on the character of the transaction, including whether it has been designated and qualifies as part of a hedging relationship, as discussed in Note 13. The cumulative effect of the adoption of SFAS 133 and SFAS 138, as of January 1, 2001, resulted in a \$111 million decrease in other comprehensive income with a corresponding increase of \$111 million in net income, net of taxes. As permitted upon adoption of SFAS No.133, the Company reclassified \$2,531 million of held-to-maturity securities as available-for-sale. This reclassification resulted in an after tax cumulative effect adjustment of \$44 million increasing other comprehensive income, representing the after-tax unrealized gain on these securities at January 1, 2001. The net impact on other comprehensive income of these cumulative effect adjustments was a decrease of \$67 million, after tax.

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No.141, "Business Combinations". SFAS No.141 requires that the Company account for all business combinations in the scope of the statement using the purchase method. SFAS No. 141 also clarifies the criteria to recognize intangible assets separately from goodwill. SFAS No.141 is effective for business combinations initiated after June 30, 2001. A September 2001 acquisition resulted in the recognition of goodwill, which in accordance with SFAS 142, the Company did not amortize.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". An intangible asset with a finite life is amortized over its useful life to the reporting entity; an intangible asset with an indefinite useful life, including goodwill, is not amortized. All indefinite lived intangible assets shall be tested for impairment in accordance with the statement. FAS 142 also requires the reclassification of any intangible assets which do not meet the FAS 141 criteria for recognition separately from goodwill. The Company has adopted SFAS No. 142 as of January 1, 2002. The Company has ceased the amortization of goodwill as of that date and has determined that the implementation of the transition provisions of this statement does not result in an impairment loss as of the adoption date of the standard. In the third quarter of 2002, the Company completed the regular annual impairment tests of goodwill required by the statement, which resulted in no impairment loss. Additionally, the Company has determined that there will be no reclassifications between goodwill and other intangible asset balances.

In January 2003, the FASB issued Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. The consolidation requirements of FIN No. 46 is effective immediately for variable interest entities created after January 31, 2003, and for previously created entities in the first fiscal year or interim period beginning after June 15, 2003. The Company has identified three potential variable interest entities that it may be required to consolidate when the new rule becomes effective. These entities were established to facilitate securitization transactions. At December 31, 2002, the Company had debt and equity investments in these entities of \$47 million and \$9 million, respectively. These entities had total assets of \$668 million at December 31, 2002.

There is no economic recourse to the Company for the debt obligations issued by these entities. The maximum economic loss exposure is limited to the Company's debt and equity investments, totaling \$56 million.

NOTE 4 – INVESTMENTS

Fixed Maturities

The amortized cost and estimated fair value of fixed income investments as of December 31, 2002 and 2001 by contractual maturity, were as follows (in millions). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

	2002		2001	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available for Sale				
Due in one year or less	\$2,684	\$ 2,705	\$ 3,465	\$ 3,492
Due after one year through five years	11,616	12,186	10,908	11,187
Due after five years through ten years	16,339	17,422	14,546	14,736
Due after ten years	18,658	20,198	16,623	16,903
Mortgage and Asset Backed Securities:				
U.S. government or U.S. government agency	3,831	4,163	3,362	3,524
Other mortgage-backed securities	13,325	14,238	13,123	13,385
Other asset-backed securities	5,862	5,989	4,445	4,475
Other	-	-	380	381
Total Available for Sale	<u>\$72,315</u>	<u>\$76,901</u>	<u>\$66,852</u>	<u>\$68,083</u>

	2002		2001	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Held to Maturity				
Due in one year or less	\$10	\$10	\$17	\$18
Due after one year through five years	107	99	83	88
Due after five years through ten years	61	54	77	83
Due after ten years	<u>288</u>	<u>299</u>	<u>218</u>	<u>230</u>
Total Held to Maturity	<u>\$466</u>	<u>\$462</u>	<u>\$395</u>	<u>\$419</u>

At December 31, 2002 and 2001, the distribution of gross unrealized gains and losses on investments in fixed maturities was as follows (in millions):

<u>Available for Sale</u>	2002			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government corporations and agencies	\$ 2,679	\$ 167	\$ 1	\$ 2,845
U.S. agencies, state, and municipal	892	165	-	1,057
Foreign governments	1,008	91	1	1,098
Corporate	48,823	3,989	865	51,947
Mortgage-backed securities	13,051	919	5	13,965
Asset-backed securities	<u>5,862</u>	<u>213</u>	<u>86</u>	<u>5,989</u>
Total Available for Sale	<u>\$72,315</u>	<u>\$5,544</u>	<u>\$958</u>	<u>\$76,901</u>

<u>Held to Maturity</u>	2002			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Foreign governments	\$441	\$-	\$5	\$436
Corporate	20	-	-	20
Other	<u>5</u>	<u>1</u>	<u>-</u>	<u>6</u>
Total Held to Maturity	<u>\$466</u>	<u>\$1</u>	<u>\$5</u>	<u>\$462</u>

<u>Available for Sale</u>	2001			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government corporations and agencies	\$5,954	\$ 96	\$11	\$6,039
U.S. agencies, state, and municipal	806	77	-	883
Foreign governments	587	23	10	600
Corporate	41,557	1,601	838	42,320
Mortgage-backed securities	13,123	334	72	13,385
Asset-backed securities	4,445	89	59	4,475
Other	<u>380</u>	<u>1</u>	<u>-</u>	<u>381</u>
Total Available for Sale	<u>\$66,852</u>	<u>\$2,221</u>	<u>\$990</u>	<u>\$68,083</u>

<u>Held to Maturity</u>	2001			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Foreign governments	\$375	\$22	-	\$397
Corporate	14	1	-	15
Other	<u>6</u>	<u>1</u>	<u>-</u>	<u>7</u>
Total Held to Maturity	<u>\$395</u>	<u>\$24</u>	<u>-</u>	<u>\$419</u>

At December 31, 2002 and 2001, the Company has outstanding contractual obligations to acquire additional private placement securities amounting to \$326 million and \$66 million, respectively.

Equity Securities

At December 31, 2002 and 2001, the distribution of gross unrealized gains and losses on unaffiliated equity securities was as follows (in millions):

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
2002	\$2,539	\$143	\$156	\$2,526
2001	\$2,786	\$470	\$211	\$3,045

Mortgage Loans

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

The fair value of the mortgage loan portfolio at December 31, 2002 and 2001 is estimated to be \$11,170 million and \$10,130 million, respectively. Fair value is determined by discounting the projected cash flow for each loan to determine the current net present value. The discount rate used approximates the current rate for new mortgages with comparable characteristics and similar remaining maturities.

At December 31, 2002 and 2001, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to \$320 million and \$135 million, respectively, at fixed and floating interest rates ranging from 3.7% to 12.3%, and 4.5% to 10.7%, respectively. These commitments are diversified by property type and geographic region.

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

At December 31, 2002 and 2001, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	2002		2001	
	Carrying Value	% of Total	Carrying Value	% of Total
Property Type:				
Office building	\$3,905	38.7%	\$3,702	38.5%
Retail facilities	2,341	23.3%	2,372	24.7%
Apartment buildings	1,269	12.6%	1,088	11.3%
Residential	1,086	10.8%	1,012	10.5%
Other	<u>1,467</u>	<u>14.6%</u>	<u>1,442</u>	<u>15.0%</u>
Total	<u>\$10,068</u>	<u>100.0%</u>	<u>\$9,616</u>	<u>100.0%</u>

	2002		2001	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic Location:				
Central	\$2,849	28.3%	\$2,804	29.1%
South Atlantic	2,582	25.6%	2,324	24.2%
Middle Atlantic	2,164	21.5%	2,218	23.1%
Pacific	1,654	16.4%	1,432	14.9%
New England	727	7.2%	748	7.8%
Other	<u>92</u>	<u>1.0%</u>	<u>90</u>	<u>.9%</u>
Total	<u>\$10,068</u>	<u>100.0%</u>	<u>\$9,616</u>	<u>100.0%</u>

Other Long-term Investments

The components of other long-term investments as of December 31, 2002 and 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Limited partnerships/Limited liability companies	\$1,444	\$1,257
Real estate	442	408
Collateralized third party loans	598	236
Derivatives	168	68
Other	<u>44</u>	<u>143</u>
Total other long-term investment	<u>\$2,696</u>	<u>\$2,112</u>

Net unrealized investment losses on limited partnerships and limited liability companies aggregated \$208 million and \$244 million for the years ended December 31, 2002 and 2001, respectively, and were recorded as a component of other comprehensive income in the accompanying Consolidated Balance Sheet.

Accumulated depreciation on real estate at December 31, 2002 and 2001 was \$113 million and \$108 million, respectively. Depreciation and amortization expense totaled \$11 million and \$12 million for the years ended December 31, 2002 and 2001, respectively, and was recorded as a component of net investment income in the accompanying Consolidated Statement of Income.

Unfunded commitments on limited partnership and limited liability corporations amounted to \$840 million and \$662 million for December 31, 2002 and 2001, respectively.

Restricted Assets and Special Deposits

Assets of \$246 million and \$232 million at December 31, 2002 and 2001, respectively, were on deposit with governmental authorities or trustees as required by certain state insurance and foreign government laws and are included within related invested assets in the accompanying Consolidated Balance Sheet.

NOTE 5 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2002 and 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Fixed maturities	\$4,757	\$4,630
Equity securities	89	92
Mortgage loans	774	730
Real estate	79	83
Policy loans	438	425
Derivatives	70	10
Limited partnerships	(133)	38
Other	<u>56</u>	<u>2</u>
Gross investment income	\$6,130	\$6,010
Investment expenses	<u>(348)</u>	<u>(281)</u>
Net investment income	<u>\$5,782</u>	<u>\$5,729</u>

For the years ended December 31, 2002 and 2001, investment gains (losses) were as follows (in millions):

	<u>2002</u>		<u>2001</u>	
	<u>Gains</u>	<u>Losses</u>	<u>Gains</u>	<u>Losses</u>
Fixed maturities	\$ 794	\$ (961)	\$ 675	\$ (630)
Equity securities	186	(348)	337	(231)
Mortgage loans	4	(16)	2	(6)
Real estate	39	(2)	48	-
Other long-term investments	12	(7)	42	(48)
Derivatives instruments	236	(83)	218	(366)
Other	<u>23</u>	<u>(131)</u>	<u>-</u>	<u>(182)</u>
Subtotal	<u>\$1,294</u>	<u>\$(1,548)</u>	<u>\$1,322</u>	<u>\$(1,463)</u>
Net investment losses		<u>\$(254)</u>		<u>\$(141)</u>

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

The gross gains and losses on trading securities for the period April 1, 2002 through December 31, 2002 that has been included in net investment losses in the accompanying Consolidated Statement of Income amounted to \$31 million and \$(106) million, respectively.

Proceeds from the sale of available-for-sale fixed maturities were \$72,528 million and \$79,610 million for the years ended December 31, 2002 and 2001, respectively. Realized gains on such sales were \$794 million and \$675 million for the years ended December 31, 2002 and 2001, respectively, and realized losses were \$622 million and \$521 million, respectively.

Related losses from other than temporary impairments in fixed maturities (included in gross investment losses on fixed maturities above) were \$323 million and \$109 million for the years ended December 31, 2002 and 2001, respectively. Related losses from other than temporary impairments in equity securities (included in gross investment losses on equity securities above) were \$15 million and \$28 million for the years ended December 31, 2002 and 2001, respectively.

The activity in the mortgage loan specific and general reserves as of December 31, 2002 and 2001 is summarized below (in millions):

	<u>2002</u>	<u>2001</u>
Beginning balance	\$20	\$45
Additions/(Reductions) charged (credited) to operations	<u>13</u>	<u>(25)</u>
Ending balance	<u>\$33</u>	<u>\$20</u>

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on available-for-sale investments are included in the Consolidated Balance Sheet as a component of accumulated other comprehensive income. Changes in these amounts include reclassification adjustments for prior period unrealized gains (losses) that have been recognized as realized gains (losses) during the current year and are included in net investment losses in the accompanying Consolidated Statement of Income. The amounts for the years ended December 31, 2002 and 2001 are as follows (in millions):

	<u>2002</u>	<u>2001</u>
Net unrealized investment gains, beginning of the year	<u>\$ 697</u>	<u>\$ 419</u>
Cumulative effect of a change in accounting principle	—	(67)
Changes in net unrealized investment gains (losses) attributable to investments:		
Net unrealized investment gains (losses) on investments arising during the period	2,115	426
Less: Reclassification adjustments for gains (losses) included in net income	<u>217</u>	<u>(128)</u>
Change in net unrealized investment gains (losses), net of adjustments	1,898	554
Impact of net unrealized investment gains (losses) on:		
Policyholder account balances	(503)	(35)
Deferred policy acquisition costs	<u>(772)</u>	<u>(174)</u>
Change in net unrealized investment gains (losses)	<u>623</u>	<u>354</u>
Net unrealized investment gains, end of year	<u>\$1,320</u>	<u>\$ 697</u>

Net unrealized gains (losses) on investments arising during the period reported in the above table are net of income tax expense of \$1,139 million and \$229 million for the years ended December 31, 2002 and 2001, respectively.

Reclassification adjustments reported in the above table for the years ended December 31, 2002 and 2001 are net of income tax expense (benefit) of \$117 million and (\$69) million, respectively.

Policyholder account balances reported in the above table are net of income tax benefit of \$271 million and \$19 million for the years ended December 31, 2002 and 2001, respectively.

Deferred policy acquisition costs in the above table for the years ended December 31, 2002 and 2001 are net of income tax benefit of \$416 million and \$94 million, respectively.

NOTE 6 - SEPARATE ACCOUNTS

Guaranteed Separate Accounts

The company currently maintains guaranteed separate accounts with assets of \$1,955 million and \$1,668 million at December 31, 2002 and 2001, respectively. The company also maintains a guaranteed separate account for its universal life insurance policies with assets of \$719 million and \$487 million at December 31, 2002 and 2001, respectively. The assets in the guaranteed separate accounts are comprised primarily of privately placed securities such as corporate bonds, mortgage backed securities and commercial mortgages as well as publicly traded bonds including investment grade corporate, high-yield and treasury bonds. The assets of the guaranteed separate accounts are carried at fair value.

Non-Guaranteed Separate Accounts

The Company currently maintains non-guaranteed, non-registered separate accounts with assets of \$1,716 million and \$1,971 million at December 31, 2002 and 2001, respectively. The assets of the separate accounts, which are carried at fair value, represent investments in equity securities.

The Company also maintains non-guaranteed separate accounts, several of which are registered by the Securities and Exchange Commission (SEC), for its variable deferred annuity and variable life products with assets of \$8,525 million and \$9,930 million at December 31, 2002 and 2001, respectively. The assets of the separate accounts, which are carried at fair value, represent investments in shares of the New York Life sponsored MainStay VP Series Fund and other non-proprietary funds.

NOTE 7 - DEFERRED POLICY ACQUISITION COSTS

An analysis of deferred policy acquisition costs for the years ended December 31, 2002 and 2001 was as follows (in millions):

	<u>2002</u>	<u>2001</u>
Balance at beginning of year	\$4,229	\$3,892
Current year additions	1,246	1,065
Amortized during year	<u>(473)</u>	<u>(460)</u>
Balance at end of year before related adjustments	5,002	4,497
Adjustment for changes in unrealized investment gains	(1,187)	(271)
Cumulative translation adjustment	<u>(3)</u>	<u>3</u>
Balance at end of year	<u>\$3,812</u>	<u>\$4,229</u>

NOTE 8 – POLICYHOLDERS’ LIABILITIES

Policyholders’ Account Balances

Policyholders’ account balances at December 31, 2002 and 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Deferred annuities	\$13,319	\$10,247
Guaranteed investment contracts	11,497	10,621
Universal life contracts	10,522	9,411
Immediate participation contracts	2,634	2,529
Dividend accumulations	1,527	1,550
Annuities certain	633	642
Other	<u>754</u>	<u>756</u>
Total	<u>\$40,886</u>	<u>\$35,756</u>

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

The following table highlights the interest rate assumptions generally utilized in calculating policyholders’ account balances, as well as certain withdrawal characteristics associated with these accounts.

Product	Interest Rate	Withdrawal/Surrender Charges
Deferred annuities	3.00% to 7.15%	Surrender charges 0% to 7% for up to 9 years
Guaranteed investment contracts	1.79% to 15.16%	Where permitted by contract, subject to fair value withdrawal provisions for any funds withdrawn other than for benefit responsive and contractual payments
Universal life contracts	4.00% to 6.82%	Various up to 9 years
Immediate participation contracts	6.50% to 8.53%	Contractually limited or subject to fair value adjustment
Dividend accumulations	0.85% to 6.00%	Generally, not subject to withdrawal/surrender charges, except for certain contracts where withdrawal/surrender is limited or subject to a fair value adjustment.

The following table discloses the fair values of the Company's investment contracts at December 31, 2002 and 2001 (in millions):

	<u>2002</u>	<u>2001</u>
Deferred annuities	\$13,319	\$10,247
Guaranteed investment contracts	11,887	10,827
Immediate participation contracts	2,559	2,510
Dividend accumulations	1,527	1,550
Annuities certain	726	707
Other	<u>754</u>	<u>756</u>
Total	<u>\$30,772</u>	<u>\$26,597</u>

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

Future Policy Benefits

Future policy benefits at December 31 2002 and 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Life insurance	\$ 37,558	\$ 35,321
Individual annuities	5,116	4,083
Group annuities	3,341	3,237
Other contract liabilities	<u>1,488</u>	<u>1,353</u>
Total future policy benefits	<u>\$ 47,503</u>	<u>\$ 43,994</u>

Participating life insurance contracts represented 78% and 79% of total life insurance in force at December 31, 2002 and 2001, respectively. Participating life insurance contracts also represented 99% of total life insurance premiums for the years ended December 31, 2002 and 2001.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves:

Product	Mortality	Interest Rate	Estimation Method
Traditional life insurance policies	Generally rates guaranteed in calculating cash surrender values.	2% to 5.5%	Net level premium.
Term life insurance policies	Based upon pricing assumptions at time of policy issuance with provision for adverse deviations ("PAD")	2% to 7.7%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD.
Individual payout annuities	Based upon pricing assumptions at time of policy issuance with PAD	5.75% to 9.5%	Present value of expected future payments at a rate expected at issue with PAD
Group annuities	Mostly 1983 Group Annuity Mortality Tables	2.5% to 11%	Present value of expected future payments at rates expected at issue, or for issues prior to 1993 at the then expected portfolio rates

Guaranteed Minimum Death Benefit

The cumulative guaranteed minimum death benefit (“GMDB”) reserve at December 31, 2002 and 2001 was \$55 million and \$21 million, respectively, and is included in future policy benefits in the accompanying Consolidated Balance Sheet.

NOTE 9 - FEDERAL INCOME TAXES

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

	<u>2002</u>	<u>2001</u>
Current		
Federal	\$(112)	\$ 97
State and Local	8	13
Foreign	<u>(1)</u>	<u>2</u>
	<u>(105)</u>	<u>112</u>
Deferred		
Federal	41	61
Foreign	<u>10</u>	<u>2</u>
	<u>51</u>	<u>63</u>
Income tax (benefit) expense	<u>\$ (54)</u>	<u>\$ 175</u>

The components of the net deferred tax asset as of December 31, 2002 and 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Deferred tax assets:		
Policy reserves	\$2,295	\$2,090
Agent & employee benefits	233	239
Net operating losses	166	179
Other reserves	71	54
Investment in foreign subsidiary	52	52
Other deferred tax asset	<u>11</u>	<u>71</u>
Gross deferred tax assets before valuation allowance	2,828	2,685
Valuation allowance	<u>(14)</u>	<u>(231)</u>
Deferred tax assets	<u>2,814</u>	<u>2,454</u>
Deferred tax liabilities:		
Deferred policy acquisition costs	1,118	950
Investments	1,114	704
Deferred distribution costs	25	40
Other deferred tax liabilities	<u>87</u>	<u>54</u>
Gross deferred tax liabilities	<u>2,344</u>	<u>1,748</u>
Net deferred tax asset	<u>\$ 470</u>	<u>\$ 706</u>

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

The gross deferred tax asset relates to temporary differences that are expected to reverse as net ordinary deductions. The Company has recorded a valuation allowance of \$14 million and \$179 million related to foreign net operating loss carry forwards at December 31, 2002 and 2001, respectively. This valuation allowance reflects management's assessment, based on available information, that it is more likely than not that the deferred income tax asset for these amounts of foreign net operating loss carry forwards will not be realized. The benefit of these carry forwards may be recognized when management believes it is more likely than not that the deferred income tax asset is realizable.

A 2001 valuation allowance in the amount of \$52 million was related to an investment in a foreign subsidiary and was established due to management's concern about the realization of the deferred tax asset. There is an active strategic plan to restructure the underlying investment and recognize the deferred tax asset. Accordingly, the valuation allowance against this investment was released in 2002 and included in income tax (benefit) expense in the accompanying Consolidated Statement of Income as a current year benefit.

Through the period ending December 31, 2001, NYL International's business plan with respect to one of its Mexican subsidiaries provided for current repatriation of the subsidiary's earnings. As such, Federal income taxes were provided at the applicable statutory Federal income tax rate. Beginning in year 2002, NYL International changed its dividend policy to reflect indefinite permanent reinvestment of the subsidiary's earnings in accordance with a plan of expansion that utilizes the distributable earnings of the subsidiary. Accordingly, Federal income taxes are provided at the applicable statutory local tax rate resulting in a deferred tax asset of \$152 million for the subsidiary's net operating losses, which will expire in 2012.

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

Set forth below is a reconciliation of the statutory Federal income tax rate to the effective tax rate for 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Statutory Federal income tax rate	35.00%	35.00%
Equity base tax	(28.67)	(9.44)
Foreign operations	(6.66)	.47
Tax exempt income	(3.48)	(4.41)
Other	<u>(1.77)</u>	<u>(1.55)</u>
Effective tax rate	<u>(5.58)%</u>	<u>20.07%</u>

The Company's Federal income tax returns are routinely examined by the IRS and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 1998. There were no material effects on the Company's consolidated results of operations as a result of these audits. The Company believes that its recorded income tax liabilities are adequate for all open years.

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

NOTE 10 – REINSURANCE

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk. The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Life insurance reinsured was 32% and 31% of total life insurance in-force at December 31, 2002 and 2001, respectively.

The effects of reinsurance for the years ended December 31, 2002 and 2001 were as follows (in millions):

	<u>2002</u>	<u>2001</u>
Premiums:		
Direct	\$7,472	\$6,888
Assumed	(23)	106
Ceded	<u>(432)</u>	<u>(415)</u>
Net Premiums	<u>\$7,017</u>	<u>\$6,579</u>
Policyholders' Benefits Ceded	<u>\$ 429</u>	<u>\$ 369</u>
Reinsurance Recoverables	<u>\$ 425</u>	<u>\$ 342</u>

NOTE 11 – DEBT

For the years ended December 31, 2002 and 2001 the fair value of debt was \$2,611 million and \$1,926 million, respectively. Debt, generally carried at unpaid principal balance, consisted of the following at December 31, 2002 and 2001 (in millions):

	<u>2002</u>	<u>2001</u>
Capital Corporation's Commercial Paper Debt Issuance, various maturity dates through March 2003, (the weighted average interest rate is approximately 2.03% and 1.47% for 2001 and 2002, respectively)	\$1,699	\$999
Shared Appreciation Income Linked Securities, due August 22, 2011 (coupon rate of 3.3%)	196	191
Express Scripts Automatic Exchange Security Trust, due November 15, 2003 (coupon rate of 7%)	219	200
Real Estate Mortgage Investment Conduit, due September 17, 2003, interest rate is LIBOR plus 15 basis points	148	192
6.40% Surplus Notes, due December 15, 2003	154	154
7.50% Surplus Notes, due December 15, 2003	125	125
Other (primarily capital lease)	<u>61</u>	<u>63</u>
Total debt	<u>\$2,602</u>	<u>\$1,924</u>

At December 31, 2002 and 2001 the face value of commercial paper issued by New York Life Capital Corporation ("Capital Corporation"), a wholly owned subsidiary of New York Life Insurance Company, was approximately \$1,704 million and \$1,004 million, respectively, with an unamortized discount of \$5 million for both 2002 and 2001. For the years ended December 31, 2002 and 2001, interest expense totaled \$25 million and \$15 million, respectively.

On August 22, 2001, the Company entered into an agreement with Credit Suisse First Boston International and Credit Suisse First Boston (“CSFB”), referred to as Shared Appreciation Income Linked Securities in the above table. Under these agreements, the Company has entered into a forward sale of certain of its shares of ESI, an investment of the Company accounted for under the equity method. The Company may deliver up to 4.5 million shares of ESI Class A common stock on August 22, 2011 or settle the transaction in cash instead of delivering shares. The Company received \$54.05 per ESI share or \$243 million, less offering costs of \$4 million, bringing net proceeds to \$239 million and is entitled to 23% of the future appreciation of ESI stock in excess of \$70.27 per share. In accordance with SFAS 133, \$54 million of the proceeds represented the fair value of the derivative embedded in the contract. The Company recorded a discounted debt obligation of \$189 million with a par value of \$243 million due on August 22, 2011 and deferred offering costs (included in other assets) of \$4 million. For the years ended December 31, 2002 and 2001, the accretion of interest expense totaled \$5 million and \$2 million, respectively. The Company pays CSFB a 3.3% annual coupon payment quarterly on each November 22, February 22, May 22, and August 22. For the years ended December 31, 2002 and 2001, the Company made coupon payments of \$8 million and \$2 million, respectively.

On November 7, 2000, the Company entered into agreements with Express Scripts Automatic Exchange Security Trust (the “Trust”), a non-affiliated, registered, closed-end management investment company. The Company may deliver up to 6.9 million shares, adjusted to reflect a two-for-one stock split effected on June 22, 2001, of ESI Class A common stock (the “ESI Pledged Shares”) on November 15, 2003 or settle the transaction in cash instead of delivering shares. The Company received \$34.50 per share or \$238 million, less offering costs bringing net proceeds to \$184 million and is entitled to 17% of the appreciation in excess of \$41.40 per share. The carrying amount of the debt obligation will be accreted up to its par value of \$238 million at maturity on November 15, 2003. Amortization of deferred offering costs was \$3 million for both 2002 and 2001. For the years ended December 31, 2002, and 2001 interest expense totaled \$19 million and \$18 million, respectively.

During 2000, the Company entered into a Real Estate Mortgage Investment Conduit (“REMIC”) by transferring mortgage-backed securities at fair value to a Trust. The Trust, in turn, issued debt to third parties and equity to the Company. All cash flows from the transferred assets are used to pay down the debt, and the Company will not receive payments on its equity holdings until the debt is retired or sold. Accordingly, this transaction has been recorded as a financing transaction with the related liability recorded in Debt in the accompanying Consolidated Balance Sheet. The REMIC is dissolved upon the maturity or sale of its assets.

On December 15, 1993, New York Life Insurance Company issued Surplus Notes (“Notes”) with a principal balance of \$450 million: \$150 million of a 6.40% Surplus Note, due 2003 and \$300 million of a 7.50% Surplus Note due 2023. These Notes were issued pursuant to Rule 144A under the Securities Act of 1933 and are administered by a U.S. Bank as registrar/paying agent.

Proceeds from the issuance of the Notes were \$445 million, net of related issuance costs. The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of New York Life Insurance Company. The Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent of Insurance of the State of New York (“Superintendent”) and only out of surplus funds which the Superintendent determines to be available for such payments under New York State Insurance law. The 6.40% Note may not be redeemed at the option of New York Life Insurance Company or any holder of the Notes. Subject to prior approval of the Superintendent, the 7.50% Note may be redeemed at New York Life Insurance Company's election, in whole or in part, at any time on or after December 15, 2003 at a premium until December 15, 2012 and thereafter at a redemption price

equal to 100% of the principal amount. During 2001, with the approval of the Superintendent, New York Life repurchased and retired \$175 million of its 30 year Surplus Note at an average price of 100.98 of par.

Interest on the 6.40% Note is scheduled to be paid semi-annually on April 15 and October 15 of each year. Interest on the 7.50% Note is scheduled to be paid semi-annually on July 15 and January 15 of each year. For the years ended December 31, 2002 and 2001 interest expense totaled \$19 million and \$32 million, respectively. Accrued interest at December 31, 2001 and 2002 was \$9 million.

Amounts due on other debt are \$4 million in 2003, \$4 million in 2004, \$4 million in 2005, \$6 million in 2006, \$6 million in 2007 and \$37 million thereafter.

Line of Credit

The Company is party to a credit agreement with a consortium of banks. This credit agreement totals \$1 billion and consists of a \$300 million, 364-day revolving credit facility ("Facility A") expiring on July 31, 2003 and a \$700 million, 5-year revolving credit facility ("Facility B") expiring August 5, 2003. Annual facility fees for Facility A and B are currently 0.05% and 0.06%, respectively. For Facility A and B, borrowing rates are currently at spreads of 0.16% and 0.14% over LIBOR, respectively. Annual facility fees and borrowing rates could increase if New York Life Insurance Company's Standard & Poor's Claims Paying Ability rating and Moody's Financial Strength rating are downgraded. The Company has agreed to maintain statutory surplus plus an Asset Valuation Reserve of at least \$4,500 million. In addition, the credit agreement contains various covenants pertaining to allowable activities of the Company. The Company has not utilized the credit facility to date.

NOTE 12 - BENEFIT PLANS

Pension Plans

The Company maintains the New York Life Insurance Company Pension Plan (the "Pension Plan"). The Pension Plan is a defined benefit pension plan covering substantially all eligible full-time and part-time employees of the Company and certain eligible employees of subsidiaries that adopt the Pension Plan. Pension Plan participants are entitled to annual pension benefits beginning at normal retirement age (age 65), equal to a percentage of their final 5-year average annual compensation less a Social Security offset for each active participant in the Plan as of December 31, 1988. The Company also maintains the New York Life Excess Benefit Plan, which is a nonqualified, unfunded arrangement, which provides benefits in excess of the maximum benefits that may be paid or accrued under the Pension Plan. Agents are not eligible for benefits under the Pension Plan or the New York Life Excess Benefit Plan

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

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

The Pension Plan and the Retirement Plan are funded solely by Company contributions. The Company's funding policy for each of the Pension Plan and the Retirement Plan is to contribute annually the maximum amount deductible for federal income tax purposes, but not less than the minimum amount needed to comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). A contribution of \$46 million was made to the Pension Plan in 2002. No contribution to the Retirement Plan was made in 2002, as the Retirement Plan was within the full funding limitation of ERISA.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts and group annuity contracts established for each Plan. Each Plan currently invests in two group annuity contracts: one contract is an immediate participation guarantee contract relating to the Company's general account ("GA Contract"), and the other relates to pooled separate accounts ("SA Contract"). Each Plan also has investments in certain limited partnerships. Each Plan's investments in the GA Contract, the SA Contract, and certain limited partnerships are held in the separate trust established under such plan.

The Company is the issuer of the GA and SA Contracts. The Company is the manager of the pooled separate accounts under the SA Contract. The GA Contract provides for the payment of an annual administrative charge, based on a percentage of the assets maintained in the fixed account under the contract. The SA Contract provides for the payment of separate annual fees for the management of each separate account.

Grantor Trusts

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

Defined Contribution Plans

The Company maintains the Employee Progress-Sharing Investment Plan ("EPSI") which is a qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees (individuals eligible under the Company's Agents' Progress-Sharing Investment Plan are not eligible under EPSI). Under EPSI, participants may contribute (1) on a pre-tax basis to a 401(k) account, a percentage of base salary and eligible incentive compensation (up to 10% for employees whose total annual compensation exceeds the highly compensated threshold of \$85,000 based on 2002 total pay and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (2) to a non-tax deductible account up to 10% of base salary and eligible incentive pay. Highly compensated employees are limited to a combined 401 (k) and non-tax deductible rate of 10%.

The Company annually determines the level of the Company's matching contributions to EPSI. In 2002, the Company made matching contributions of up to 3% of base salary and eligible incentive pay, of participants' contributions. For the years ended December 31, 2002 and 2001, the Company's matching contributions to EPSI totaled \$15 million. EPSI also provides that New York Life Investment Management LLC ("NYLIM"), an indirect wholly owned subsidiary of the Company, may make a discretionary company contribution for certain eligible employees of NYLIM, and commencing with the 2002 Plan Year for certain eligible employees of New York Life Trust Company and New York Life Trust Company, FSB, both indirect wholly owned subsidiaries of the Company. For the 2001 Plan Year, NYLIM approved a discretionary contribution of 4% of Plan compensation, which totaled \$1.7 million. In 2002, NYLIM approved a discretionary contribution of 9.53% of Plan Compensation, which totaled \$29 thousand, for certain eligible employees of New York Life Trust Company and New York Life Trust Company, FSB. The Company also maintains the Excess EPSI Plan for certain eligible participants, which is a nonqualified unfunded arrangement that credits amounts and matching contributions in respect of compensation in excess of the amount that may be taken into account under EPSI because of applicable IRS limits.

The Company also maintains the Agent Progress-Sharing Investment Plan ("APSI") which is a defined contribution plan covering substantially all contracted United States full-time agents. (Individuals eligible under the EPSI are not eligible under APSI).

Under APSI, participants may contribute a percentage of their compensation on a pre-tax basis to a 401(k) account. For 2002, agents whose total annual compensation exceeds the highly compensated threshold of \$85,000 based on 2001 total pay could contribute up to 7% of compensation, and agents whose total compensation is below the highly compensated threshold could contribute up to 15%.

The Company annually determines the level of the Company's contributions to APSI. Contributions are based on the participants' net renewal commissions, net renewal premiums and cash values for the plan year on policies for which the participant is the original writing agent. In 2002 and 2001, the Company's contributions to APSI totaled \$2 million and \$3 million, respectively. The Company also maintains the Excess APSI Plan, which is a nonqualified, unfunded arrangement that credits Company contributions in excess of the maximum Company contributions that may be made under APSI because of certain applicable IRS limits.

Other Postretirement Benefits

The Company's Group Plan for New York Life Employees provides certain health and life insurance benefits for eligible retired employees and their eligible dependents. Employees who retired prior to January 1, 1993 do not make contributions toward retiree health and life coverages. Employees who retired on or after January 1, 1993 may be required to contribute towards medical (other than certain prescription drug coverage) and dental coverage.

The Company's Group Plan for New York Life Agents provides certain health and life insurance benefits for eligible retired agents and their eligible dependents. The Company pays the entire non-contributory life insurance costs and a portion of the contributory life insurance for retired agents. The agent contribution is based on the agent class (I, II or III), age, level of benefits and location of residence.

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

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

It has been the Company's practice to prefund postretirement benefits to the extent allowable for federal income tax purposes. Prefunding contributions are made to the Retired Employee VEBA Trust and the Retired Agent VEBA Trust, which is used to partially fund postretirement health and life benefits other than pensions. For the years ended December 31, 2002 and 2001 prefunding contributions to the Retired Employee VEBA Trust totaled \$2 million and \$20 million, respectively. For the years ended December 31, 2002 and 2001 prefunding contributions to the Retired Agent VEBA Trust totaled \$1 million and \$17 million, respectively.

The following table sets forth the benefit obligation, fair value of plan assets, and funded status of the plan for pension benefits and other postretirement benefits (in millions):

	<u>Pension Plan Benefits</u>		<u>Other Postretirement Plan Benefits</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Projected benefit obligation at September 30	\$2,766	\$2,425	\$ 905	\$ 795
Fair value of plan assets at September 30	<u>2,278</u>	<u>2,492</u>	<u>374</u>	<u>409</u>
Funded status at September 30	<u>\$ (488)</u>	<u>\$ 67</u>	<u>\$(531)</u>	<u>\$(386)</u>
Prepaid (accrued) benefit cost recognized in other assets (other liabilities) in the Consolidated Balance Sheet at December 31.	<u>\$ 649</u>	<u>\$ 541</u>	<u>\$(389)</u>	<u>\$(367)</u>

Set forth below are the assumptions used in the accounting for the plans on a weighted-average basis for pension benefits and other postretirement benefits:

	<u>Pension Plan Benefits</u>		<u>Other Postretirement Plan Benefits</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Weighted-average assumptions as of September 30				
Discount rate	7.00%	7.50%	7.00%	7.50%
Expected return on plan assets	10.00%	10.00%	8.00%	8.00%
Rate of compensation increase:				
Employees	5.42%	5.42%	4.87%	4.87%
Agents	6.77%	6.77%	N/A	N/A

The annual rate of increase in the per capita cost of covered health care benefits was assumed to be 10.00% for those under age 65 and 12.00% for those age 65 and over for 2002, and 8.50% for 2001. For the 2002 measurement, the rate was assumed to decrease gradually to 5.00% by 2008 for those under age 65 and by 2010 for those age 65 and older and remain at that level thereafter. For the 2001 measurement, the rate was assumed to decrease gradually to 5.50% by 2008 and remain at that level thereafter.

Set forth below are benefit cost, employer contributions, plan participant contributions and benefits paid for pension benefits and other postretirement benefits (in millions):

	Pension Plan Benefits		Other Postretirement Plans Benefits	
	<u>2002</u>	<u>2001</u>	<u>2001</u>	<u>2002</u>
(Prepaid) benefit cost	\$(42)	\$(46)	\$40	\$41
Employer contributions	57	8	18	41
Plan participant contributions	N/A	N/A	2	2
Benefits paid*	139	100	41	37

* Premiums paid to insurance carriers for plan policies less dividends.

NOTE 13 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge which includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed. 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 Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. For fair value hedges, the Company generally uses a qualitative assessment to measure hedge effectiveness. For fair value hedges of equity investments, the Company uses regression analysis, which measures effectiveness to the equity exposure being hedged. For cash flow hedges of interest rate risk, the Company uses either qualitative assessment, if appropriate, or regression analysis to assess hedge effectiveness to changes in the benchmark interest rate. The change in variable cash flows method is used to measure hedge ineffectiveness when appropriate. The Company discontinues hedge accounting prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item, (ii) the derivative expires or is sold, terminated, or exercised, (iii) the derivative is dedesignated as a hedge instrument, (iv) it is probable that the forecasted transaction will not occur, (v) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reflected in net investment losses, together with changes in the fair value of the related hedged item. The net amount, representing hedge ineffectiveness, is reflected in current earnings. The Company's fair value hedges are primarily the hedges of fixed-rate long-term debt and available-for-sale securities. For the years ended December 31, 2002 and 2001, there were no hedge ineffectiveness recognized in net investment

losses related to fair value hedges. No gains or losses on derivatives designated as fair value hedges were excluded from the assessment of effectiveness for the years ended December 31, 2002 and 2001.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to variable rate available-for-sale securities, available-for-sale securities that are exposed to foreign exchange risk, and liabilities that are exposed to foreign exchange risk, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value will not be included in current earnings but are reported as changes in other comprehensive income. These changes in fair value will be included in earnings of future periods when earnings are also affected by the variability of the hedged cash flows. For hedges of assets or liabilities that are subject to transaction gains and losses under FAS 52, the change in fair value relative to the change in spot rates during the reporting period is reclassified and reported with the cumulative translation adjustment for the asset/liability being hedged. To the extent these derivatives are not effective, changes in their fair values are immediately included in earnings in net investment losses. The Company's cash flow hedges primarily include hedges of floating rate available-for-sale securities. During 2002 and 2001, no hedge ineffectiveness was recognized in net investment losses related to cash flow. 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. There were no cash flow hedges of forecasted transactions as of December 31, 2002 and 2001. The estimated amount of existing gains and losses that are reported in other comprehensive income at December 31, 2002 and 2001 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 \$66 million and \$25 million, respectively.

For net investment hedges, in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the accounting treatment will similarly depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in other comprehensive income as part of the foreign currency translation adjustment. The amounts included in other comprehensive income from these hedges were \$1 million at December 31, 2002 and 2001.

Hedge accounting is discontinued when it is determined that the derivative no longer qualifies as an effective fair value hedge. The derivative will continue to be carried on the balance sheet at its fair value, but the hedged asset or liability will no longer be adjusted for changes in fair value. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income will be recognized immediately in net investment gains (losses). When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in other comprehensive income and will be recognized when the transaction affects net income; however, prospective hedge accounting for the transaction is terminated. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period net investment losses. No hedging transactions were discontinued for the years ended December 31, 2002 and 2001 due to hedge ineffectiveness.

The Company's derivative instruments that do not qualify for hedge accounting are carried at fair value with changes in value included in net investment losses.

The Company may enter into contracts that are not themselves derivative instruments but contain embedded derivatives. For each contract, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to those of the host contract and determines whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument.

When it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative. Such embedded derivatives are recorded on the balance sheet at fair value and changes in their fair value are recorded currently in net investment losses. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at fair value. As of December 31, 2002 and 2001, there were no such embedded derivatives that could not be separated from their host contracts.

The Company has an agreement with the Mainstay Equity Indexed Fund ("Indexed Fund"), a Company managed mutual fund, whereby, the Company guarantees that if, after ten years from the date of purchase ("guaranteed date"), the net asset value of an Indexed Fund share plus the value of all dividends and distributions paid, including cumulative reinvested dividends and distributions attributable to such share paid during that ten year period, is less than the public offering price initially paid for the share ("guaranteed amount"), the Company will pay the shareholders an amount equal to the difference between the guaranteed amount for each share and the net asset value of each share outstanding and held by the shareholders as of the close of business on the guarantee date. This guarantee is in effect a European style put option and its fair value represents the estimated value of future claims which was calculated using a Monte-Carlo simulation of the future equity market changes based on random scenarios drawn from a distribution of annual returns and volatility. For the years ended December 31, 2002 and 2001, the change in fair value resulted in the Company recording a loss of \$10 million and \$2 million, respectively, which was reported in net investment losses in the accompanying Consolidated Statement of Income. As of December 31, 2002 and 2001, the Company recognized a liability totaling \$12 million and \$2 million, respectively, which was included in other liabilities in the accompanying Consolidated Balance Sheet.

NOTE 14- 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, employment and benefits and/or other operations, including actions involving retail sales practices. Most of these actions seek substantial or unspecified compensatory and punitive damages. The Company 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. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed life insurer is engaged. Some

states permit member insurers to recover assessments through full or partial premium tax offsets. The Company is not aware of, nor has it received notification of any significant insolvency by insurance companies.

Loaned Securities and Repurchase Agreements

The Company participates in a securities lending program for the purpose of enhancing income on securities held. As of December 31, 2002 and 2001, \$3,439 million and \$3,463 million, respectively, of the Company's fixed maturities and equity securities were on loan to others. Such assets reflect the extent of the Company's involvement in securities lending, not the Company's risk of loss. At December 31, 2002 and 2001, the Company recorded cash collateral received under these agreements of \$3,489 million and \$2,619 million, respectively, and established a corresponding liability for the same amount.

The Company enters into agreements to sell and repurchase securities for the purpose of enhancing income on securities held. Under these agreements, the Company obtains the use of funds from a broker for approximately one month. Collateral received is invested in short-term investments and the offsetting collateral liability reported is considered fair value. The liability reported in the Consolidated Balance Sheet (included in other liabilities) for dollar repurchase agreements at December 31, 2002 and 2001 amounted to \$1,705 million and \$923 million, respectively. The investments acquired with the funds received from the securities sold are primarily included in cash and cash equivalents. At December 31, 2002 and 2001, the Company had no reverse repurchase agreements outstanding.

Lease Commitments

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

Future minimum lease payments under non-cancelable operating leases with original or remaining lease terms in excess of one year at December 31, 2002 were as follows (in millions):

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2003	\$ 96	\$ 19	\$ 115
2004	83	11	94
2005	69	6	75
2006	57	-	57
2007	48	-	48
Over 5 years	<u>214</u>	<u>-</u>	<u>214</u>
Total	567	36	603
Less future sublease rental receipts	<u>3</u>	<u>-</u>	<u>3</u>
Total	<u>\$564</u>	<u>\$ 36</u>	<u>\$ 600</u>

Rent expense for the years ended December 31, 2002 and 2001 amounted to \$102 million and \$96 million, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

Company Managed Mutual Funds

NYLIM Holdings is responsible for providing investment advisory and certain related administrative services to the Mainstay Funds, Mainstay VP Series Fund, Inc., Eclipse Funds, Eclipse Funds, Inc. (formerly The Mainstay Institutional Funds, Inc.) and the New York Life Investment Management Institutional Funds (collectively, the "NYLIM Funds"). McMorgan & Company LLC, a subsidiary of NYLIM Holdings, is the investment advisor to the McMorgan Funds (collectively with the NYLIM Funds, "the Funds"). Additionally, NYLIM Holdings, through its subsidiaries, earns investment management, accounting, administration and service fees related to the Funds, which aggregated \$268 million and \$295 million, for the years ended December 31, 2002 and 2001, respectively, and are included in other income in the accompanying Consolidated Statement of Income.

Other Transaction

Two executives of the Company are directors of ESI. ESI periodically enters into contractual arrangements with the Company. Such arrangements are entered into on terms comparable to those that would be available to unrelated third parties and are not material to the Company's result of operations or financial condition.

NOTE 16- SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid were \$276 million and \$173 million for the years ended December 31, 2002 and 2001, respectively.

Interest paid was \$71 million and \$193 million for the years ended December 31, 2002 and 2001, respectively.