NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly owned subsidiary of
New York Life Insurance Company)

FINANCIAL STATEMENTS
(STATUTORY BASIS)
DECEMBER 31, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors of
NYLIFE Insurance Company of Arizona:

We have audited the accompanying statutory financial statements of NYLIFE Insurance Company of Arizona (the "Company"), which comprise the statutory statements of financial position as of December 31, 2015 and 2014, and the related statutory statements of operations, of changes in surplus, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the Insurance Department of the State of Arizona. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the Insurance Department of the State of Arizona, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America are material.

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Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2015 and 2014, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Insurance Department of the State of Arizona described in Note 2.

Emphasis of Matter

As disclosed in Note 9 to the financial statements, the Company has significant transactions with New York Life Insurance Company and its affiliates. Because of these relationships, it is possible that the terms of the transactions are not the same as those that would result from transactions among wholly unrelated parties.

PricewaterhouseCoopers LLP

March 31, 2016

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2015	2014
	(in thousands)	
Assets		
Bonds	$ 152,856	$ 152,817
Cash, cash equivalents and short-term investments	13,166	4,365
Other invested assets	1	2,986
Total cash and invested assets	166,023	160,168
Deferred and uncollected premiums	26,518	31,004
Investment income due and accrued	1,115	1,182
Reinsurance recoverables	781	1,125
Net deferred tax assets	5,939	6,224
Other assets	91	78
Total assets	$ 200,467	$ 199,781
Liabilities, Capital and Surplus		
Liabilities:		
Policy reserves	$ 89,608	$ 104,491
Deposit funds	2,944	3,817
Policy claims	2,212	1,677
Payable to parent and affiliates	3,656	2,718
Federal income taxes payable	4,724	5,938
Other liabilities	5,663	639
Asset valuation reserve	484	429
Total liabilities	109,291	119,709
Capital and surplus:		
Capital stock-par value $100		
(30,000 shares authorized, 25,000 shares issued and outstanding)	2,500	2,500
Gross paid in and contributed surplus	98,500	98,500
Unassigned deficit	(9,824)	(20,928)
Total capital and surplus	91,176	80,072
Total liabilities, capital and surplus	$ 200,467	$ 199,781

See accompanying notes to financial statements

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31, 2015	Years Ended December 31, 2014
	(in thousands)	
Income		
Premiums	$ 23,306	$ 32,989
Net investment income	5,329	5,270
Commissions and expense allowances on reinsurance ceded	1,051	1,110
Total income	29,686	39,369
Benefits and expenses		
Death benefits	15,508	16,726
Conversion charges	4,593	5,143
Other benefit payments	521	476
Total benefit payments	20,622	22,345
Reductions to policy reserves	(12,350)	(1,786)
Commissions	245	382
Operating expenses	4,323	3,949
Total benefits and expenses	12,840	24,890
Gain from operations before federal income taxes	16,846	14,479
Federal income tax	4,823	3,435
Net gain from operations	12,023	11,044
Net realized capital gains (losses), after taxes and transfers to interest maintenance reserve	10	(6)
Net income	$ 12,033	$ 11,038

See accompanying notes to financial statements

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

	December 31,	
	2015	2014
	(in thousands)	
Capital and surplus, beginning of year	$ 80,072	$ 68,192
Net income	12,033	11,038
Change in net deferred income tax	(1,673)	(2,089)
Change in nonadmitted assets	710	1,865
Change in accounting principle	99	—
Change in asset valuation reserve	(55)	(56)
Change in net unrealized capital losses	(10)	—
Change in reserve valuation basis	—	1,600
Correction of error	—	(478)
Capital and surplus, end of year	$ 91,176	$ 80,072

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	Years Ended December 31, 2014
	(in thousands)	
Cash flow from operating activities:		
Premiums received	$ 25,121	$ 31,070
Net investment income received	5,562	5,432
Commissions and expense allowances on reinsurance ceded	1,058	1,106
Total received	31,741	37,608
Benefits and other payments	19,848	22,778
Operating expenses	5,022	4,599
Federal income taxes paid	6,091	1,853
Total paid	30,961	29,230
Net cash from operating activities	780	8,378
Cash flow from investing activities:		
Proceeds from investments sold, matured or repaid	67,706	60,414
Cost of investments acquired	(59,392)	(78,928)
Net cash from (used in) investing activities	8,314	(18,514)
Cash flow from financing and miscellaneous activities:		
Net outflows from deposit contracts	(876)	(1,297)
Other miscellaneous sources (uses)	583	(1,262)
Net cash used in financing and miscellaneous activities	(293)	(2,559)
Net increase (decrease) in cash, cash equivalents and short-term investments	8,801	(12,695)
Cash, cash equivalents and short-term investments, beginning of year	4,365	17,060
Cash, cash equivalents and short-term investments, end of year	$ 13,166	$ 4,365
Supplemental disclosures of cash flow information:		
Non-cash activities during the year:		
Capitalized interest on bonds	$ 203	$ 179

See accompanying notes to financial statements

NOTE 1 - NATURE OF OPERATIONS

NYLIFE Insurance Company of Arizona ("the Company"), a direct, wholly owned subsidiary of New York Life Insurance Company ("New York Life"), is domiciled in the State of Arizona, and was established to engage in the life insurance and annuity business. The Company currently services a ten-year guaranteed term life insurance product, which was sold through New York Life's agency force. The Company stopped sales of this product in 2011.

NOTE 2 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared using accounting practices prescribed by the Arizona Insurance Department ("statutory accounting practices"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Arizona Insurance Department ("AZID") recognizes only statutory accounting practices prescribed or permitted by the State of Arizona for determining and reporting the financial position and results of operations of an insurance company and for determining its solvency under Arizona Insurance Law. The National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of Arizona. Prescribed statutory accounting practices include state laws and regulations. Permitted statutory accounting practices encompass accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. Arizona has adopted all prescribed accounting practices found in NAIC SAP. The Company has no permitted practices.

Prior Period Correction

In 2014, the Company discovered that the disabled lives reserve established at December 31, 2013 was understated by $503 thousand. To correct this error, the Company has made the following adjustments to its financial statements at December 31, 2014: (1) the disabled lives reserve liability was increased by $503 thousand; (2) the current federal income taxes payable was reduced by $176 thousand; and (3) a prior period correction was recorded, reducing surplus by $327 thousand.

In 2014, the Company also discovered its federal income taxes payable at December 31, 2013 was understated by $151 thousand. To correct this error, the Company has made the following adjustments to its financial statements at December 31, 2014: (1) the current federal income taxes payable was increased by $151 thousand; and (2) a prior period correction was recorded, reducing surplus by $151 thousand.

NOTE 2 – BASIS OF PRESENTATION (continued)

Reconciliation to Annual Statement

The Company had the following discrepancies between its Annual Statements ("Annual Statement") filed with the state regulators and its audited financial statements for 2014:

After filing the 2014 Annual Statement, the Company discovered an error in the reporting of the prior period correction of disabled lives reserves. As a result, the Company has made the following adjustments to its financial statements at December 31, 2014: (1) the disabled lives reserve liability was reduced by $652 thousand; (2) the current federal income taxes payable was increased by $228 thousand; and (3) prior period corrections was reduced, increasing surplus by $424 thousand. The following is a reconciliation of the accompanying 2014 Statutory Statement of Financial Position to the 2014 Annual Statement, as filed:

STATUTORY STATEMENTS OF FINANCIAL POSITION

As of December 31, 2014

(in thousands)

	Audited Financial Statement	As Filed in Annual Statement	Difference
Total assets	$ 199,781	$ 199,781	$ —
Total liabilities	$ 119,709	$ 120,133	$ (424)
Total capital and surplus	$ 80,072	$ 79,648	$ 424

Statutory vs. U.S. GAAP Basis of Accounting

Financial statements prepared under NAIC SAP vary from those prepared under U.S. GAAP. The primary differences that apply to the financial statements of the Company are as follows:

- the costs related to acquiring business, principally commissions, certain policy issue expenses and sales inducements are charged to income in the year incurred, whereas under U.S. GAAP, these costs are deferred for successful sales and amortized over the periods benefited;
- life insurance reserves are based on different assumptions than they are under U.S. GAAP;
- life insurance companies are required to establish an asset valuation reserves ("AVR") by a direct charge to surplus to offset potential investment losses, whereas under U.S. GAAP, no AVR is recognized;
- investments in bonds are generally carried at amortized cost or values as prescribed by the AZID whereas under U.S. GAAP, investments in bonds that are classified as available for sale or trading are carried at fair value, with changes in fair value of bonds classified as available for sale reflected in equity, and changes in fair value of bonds classified as trading reflected in earnings;
- realized gains and losses resulting from changes in interest rates are deferred in the interest maintenance reserve ("IMR") and amortized into investment income over the remaining life of the investment sold, whereas under U.S. GAAP, the gains and losses are recognized in income at the time of sale;
- deferred income taxes exclude state income taxes and are admitted to the extent they can be realized within three years subject to a 15% limitation of capital and surplus with changes in the net deferred tax reflected as a component of surplus, whereas under U.S. GAAP, deferred income taxes include federal

and state income taxes, and changes in the deferred tax are reflected in either earnings or other comprehensive income;

- a tax loss contingency is required to be established if it is more likely than not that a tax position will not be sustained upon examination by taxing authorities. If a loss contingency is greater than 50 percent of the tax benefit associated with a tax position, the loss contingency is increased to 100 percent, whereas under U.S. GAAP the amount of the benefit for any uncertain tax position is the largest amount that is greater than 50 percent likely of being realized upon settlement;

- certain assets, such as deferred taxes that are not realizable within three years and unsecured receivables, are considered nonadmitted and excluded from assets, whereas they are included under U.S. GAAP subject to a valuation allowance, as appropriate;

- corporate securities deemed to be other-than-temporarily impaired are written down to fair value, whereas under U.S. GAAP, if certain conditions are met, credit impairments on corporate securities are recorded based at the net present value of future cash flows expected to be collected, discounted at the current book yield. Also, if certain conditions are met, the non-credit portion of the impairment on a loan-backed or structured security is not accounted for whereas under U.S. GAAP, if certain conditions are met, the non-credit portion of the impairment on a debt security is recorded through other comprehensive income. A non-credit loss exists when the fair value of a security is less than the present value of projected future cash flows expected to be collected.

The effects on the financial statements of the variances between NAIC SAP and U.S. GAAP are material to the Company.

The following table reconciles the Company's statutory capital and surplus determined in accordance with statutory accounting practices with equity determined on a U.S. GAAP basis at December 31, 2015 and 2014 (in thousands):

	2015	2014
Capital and surplus	$ 91,176	$ 80,072
AVR	484	429
Capital and surplus and AVR	91,660	80,501
Adjustments to statutory-basis for:		
Inclusion of deferred acquisition cost asset ("DAC")	8,312	12,051
Inclusion of unrealized gains on investments	2,288	5,318
Inclusion of statutory nonadmitted assets	1,110	430
Removal of IMR	52	60
Revaluation of deferred taxes	(1,317)	(2,912)
Re-estimation of future policy benefits	(5,453)	(3,360)
Other	1,238	932
Total adjustments	6,230	12,519
Total U.S. GAAP stockholder's equity	$ 97,890	$ 93,020

NOTE 2 – BASIS OF PRESENTATION (continued)

The following table reconciles the Company's statutory net income determined in accordance with statutory accounting practices with net income determined on a U.S. GAAP basis for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Net gain from operations	$ 12,023	$ 11,044
Realized capital gains (losses)	10	(6)
Statutory net income	12,033	11,038
Adjustments to statutory net income for:		
Inclusion of net amortization of DAC	(3,739)	(4,530)
Re-estimation of future policy benefits	(1,866)	(4,449)
Removal of IMR capitalization, net of amortization	92	(18)
Inclusion of deferred income tax expense	250	1,473
Other	70	41
Total adjustments	(5,193)	(7,483)
Total U.S. GAAP net income	$ 6,840	$ 3,555

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Management is also required to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results may differ from those estimates.

Investments

Investments are valued in accordance with methods and values prescribed by the AZID.

Income from investments, including amortization of premium, accrual of discount and similar items, is recorded within net investment income, unless otherwise stated herein.

Bonds other than loan-backed and structured securities are stated at amortized cost using the interest method. Bonds in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. Refer to Note 7 – Fair Value Measurements, for discussion of valuation methods for bonds.

Loan-backed and structured securities are valued at amortized cost using the interest method including current assumptions of projected cash flows. Loan-backed and structured securities in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. Amortization of the premium or accretion of discount from the purchase of these securities considers the estimated timing and amount of cash flows of the underlying loans, including prepayment assumptions based on data obtained from external sources or internal estimates. For loan-backed and structured securities, projected future cash flows are updated monthly, and the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. For high credit quality loan-backed and structured securities (those rated AA or above at the date of acquisition), the adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method.

NOTE 3– SIGNIFICANT ACCOUNTING POLICIES (continued)

For loan-backed and structured securities that are not of high credit quality (those rated below AA at date of acquisition), certain floating rate securities and securities with the potential for a loss of a portion of the original investment due to contractual prepayments (e.g., interest only securities), the effective yield is adjusted prospectively for any changes in estimated cash flows. Refer to Note 7 – Fair Value Measurements, for discussion of valuation methods for bonds.

The cost basis of bonds is adjusted for impairments in value when it is deemed to be other-than-temporary. An other-than-temporary loss is recognized in net income when it is anticipated that the amortized cost will not be recovered. Factors considered in evaluating whether a decline in value is other than temporary include: (1) whether the decline is substantial; (2) the duration that the fair value has been less than cost; (3) the financial condition and near-term prospects of the issuer; and (4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

When a bond (other than loan-backed and structured securities) is deemed other-than-temporarily impaired, the difference between the investments' amortized cost and its fair value is recognized as a realized loss and reported in net income if the loss is credit related, or deferred in the IMR if interest related for bonds.

For loan-backed and structured securities, the entire difference between the security's amortized cost and its fair value is recognized in net income only when the Company (a) has the intent to sell the security or (b) it does not have the intent and ability to hold the security to recovery. If neither of these two conditions exists, a realized loss is recognized in net income for the difference between the amortized cost basis of the security and the net present value of projected future cash flows expected to be collected. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the loan-backed or structured security prior to impairment.

The determination of cash flow estimates in the net present value is subjective and methodologies will vary, depending on the type of security. The Company considers all information relevant to the collectability of the security, including past events, current conditions, and reasonably supportable assumptions and forecasts in developing the estimate of cash flows expected to be collected. This information generally includes, but may not be limited to, the remaining payment terms of the security, estimated prepayment speeds, defaults, recoveries upon liquidation of the underlying collateral securing the notes, the financial condition of the issuer(s), credit enhancements and other third-party guarantees. In addition, other information, such as industry analyst reports and forecasts, sector credit ratings, the financial condition of the bond insurer for insured fixed income securities and other market data relevant to the collectability may also be considered, as well as the expected timing of the receipt of insured payments, if any. The estimated fair value of the collateral may be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of the collateral for recovery.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired loan-backed or structured security is accounted for as if it had been purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis may be accreted (or amortized) into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

Limited partnerships and limited liability companies, which have admissible audits as set forth in SSAP No. 97, "*Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88"* ("SSAP 97") are carried at the underlying audited equity of the investee. The cost basis of limited partnerships is adjusted for impairments in value deemed to be other-than-temporary, with the difference between cost and carrying value, which approximates fair value, recognized as a realized loss reported in net income. The new cost basis of an impaired limited partnership is not adjusted for subsequent increases in the underlying audited equity of the investee. The Company nonadmits the entire investment when an admissible audit is not performed. Dividends and distributions from limited partnerships and limited liability companies, other than those deemed a return of capital, are recorded in net investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in surplus, net of deferred taxes.

Short-term investments consist of securities with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are carried at amortized cost, which approximates fair value. Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at date of purchase and are carried at amortized cost.

All acquisitions of securities are recorded in the financial statements on a trade date basis except for the acquisitions of private placement bonds, which are recorded on the funding date.

The AVR is used to stabilize surplus from fluctuations in the market value of bonds, limited partnerships and other investments. Changes in the AVR are accounted for as direct increases or decreases in surplus. The IMR captures interest related realized gains and losses on sales (net of taxes) of bonds, interest related other-than-temporary impairments (net of taxes) and realized gains or losses (net of taxes) on terminated interest rate related derivatives which are amortized into net income over the expected years to maturity of the investments sold or the item being hedged using the grouped method. An interest related other-than-temporary impairment occurs when the Company has the intent to sell an investment, at the reporting date, before recovery of the cost of the investment. For loan-backed and structured securities, the non-interest related other-than-temporary impairment is booked to the AVR, and the interest related portion to the IMR.

Premiums and Related Expenses

Life premiums are recognized as revenue when due. Commissions are charged to operations as incurred. Amounts received or paid under insurance contracts without mortality or morbidity risk are recorded directly in the accompanying Statutory Statements of Financial Position as an adjustment to deposit funds and are not reflected in the accompanying Statutory Statements of Operations.

Policy Reserves

Policy reserves are based on mortality tables and valuation interest rates, which are consistent with statutory requirements and are designed to be sufficient to provide for contractual benefits. The Company holds reserves greater than those developed under the minimum statutory reserving rules when the valuation actuary determines that the minimum statutory reserves are inadequate. Actual results could differ from these estimates and may result in the establishment of additional reserves. The valuation actuary monitors actual experience and where circumstances warrant, revises assumptions and the related estimates for policy reserves. Refer to Note 10 – Insurance Liabilities, for discussion of reserves in excess of minimum NAIC requirements.

Federal Income Taxes

Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. Deferred federal income tax assets (“DTAs”) and deferred federal income tax liabilities (“DTLs”) are recognized for expected future tax consequences of temporary differences between statutory and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby statutory and tax balance sheets are compared. Changes in DTAs and DTLs are recognized as a separate component of surplus (except for the net deferred tax asset related to unrealized gains, which is included in unrealized gains and losses). Net DTAs are admitted to the extent permissible under NAIC SAP. Gross DTAs are reduced by a statutory valuation allowance, if any, if it is more likely than not that some portion or all of the gross DTA will not be realized. The Company is required to establish a tax loss contingency if it is more likely than not that a tax position will not be sustained. The amount of the contingency reserve is management's best estimate of the amount of the original tax benefit that could be reversed upon audit, unless the best estimate is greater than 50% of the original tax benefit, in which case the reserve is equal to the entire tax benefit.

The Company is a member of an affiliated group, which files a consolidated federal income tax return with New York Life. The consolidated income tax liability is allocated among the members of the group in accordance with a tax allocation agreement. This tax allocation agreement provides that the Company is allocated its share of the consolidated tax provision or benefit, determined generally on a separate company basis, 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 occurring within 30 days of the filing of the consolidated return.

Other Assets and Liabilities

Other assets primarily consist of guaranty funds receivable and receivables from parent.

Other liabilities consist primarily of amounts payable for undelivered securities, premiums paid in advance and IMR.

Nonadmitted Assets

Under statutory accounting practices, certain assets are designated as nonadmitted assets and are not included in the accompanying Statutory Statements of Financial Position since these assets are not permitted by the AZID to be taken into account in determining the Company's financial condition.

Nonadmitted assets primarily consists of DTAs not realizable within three years and receivables over 90 days past due. Changes to nonadmitted assets are reported as a direct adjustment to surplus in the accompanying Statutory Statements of Changes in Surplus.

Fair Value of Financial Instruments and Insurance Liabilities

Fair value of various assets and liabilities are included throughout the notes to the financial statements. Specifically, fair value disclosure of investments held is reported in Note 6 – Investments. Fair values for insurance liabilities are reported in Note 10 – Insurance Liabilities. The aggregate fair value of all financial instruments summarized by type is included in Note 7 – Fair Value Measurements.

Contingencies

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable.

NOTE 4 – BUSINESS RISKS AND UNCERTAINTIES

In periods of extreme volatility and disruption in the securities and credit markets and under certain interest rate scenarios, the Company could be subject to disintermediation risk and/or reduction in net interest spread or profit margins.

The Company's investment portfolio consists principally of fixed income securities and other invested assets. The fair value of the Company's investments varies depending on economic and market conditions and the interest rate environment.

With respect to investments in mortgage-backed securities and other securities subject to prepayment and/or call risk, significant changes in prevailing interest rates and/or geographic conditions may adversely affect the timing and amount of cash flows on these investments, as well as their related values. In addition, the amortization of market premium and accretion of market discount for mortgage-backed securities is based on historical experience and estimates of future payment experience underlying mortgage loans. Actual prepayment timing will differ from original estimates and may result in material adjustments to asset values and amortization or accretion recorded in future periods.

Certain of the Company's investments lack liquidity, such as privately placed fixed income securities. The Company also holds certain investments in asset classes that are liquid but may experience significant market fluctuations, such as mortgage-backed and other asset-backed securities. If the Company were to require significant amounts of cash on short notice in excess of cash on hand and the Company's portfolio of liquid investments, the Company could have difficulty selling these investments in a timely manner, be forced to sell them for less than the Company otherwise would have been able to realize, or both.

Although management of the Company employs a number of asset/liability management strategies to minimize the effects of interest rate volatility, no guarantee can be given that it will be successful in managing the effects of such volatility.

The Company establishes and carries reserves to pay future policyholder benefits and claims. The process of calculating reserve amounts for an insurance organization involves the use of a number of estimates and assumptions including those related to mortality (the relative incidence of death in a given time or place), morbidity (the incidence rate of a disease or medical condition) and interest rates (the rates expected to be paid or received on financial instruments, including insurance or investment contracts). Since the Company cannot precisely determine the amount or timing of actual future benefits and claims, actual results could differ significantly from those assumed. Deviations from one or more of these estimates and assumptions could have a material adverse effect on the Company's results of operations or financial condition.

Significant negative deviations in actual experience from the Company's pricing assumptions could have a material adverse effect on the profitability of its products. The Company's earnings are significantly influenced by the claims paid under its insurance contracts and will vary from period to period depending upon the amount of claims incurred. There is only limited predictability of claims experience within any given month or year. The Company's future experience may not match its pricing assumptions or its past results. Accordingly, its results of operations and financial condition could be materially adversely affected.

Issuers or borrowers whose securities or loans the Company holds, customers, trading counterparties, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. In addition, the underlying collateral supporting the Company's structured securities, including mortgage-backed securities, may deteriorate or default causing these structured securities to incur losses.

The risk based capital ("RBC") ratio is the primary measure by which regulators and rating agencies evaluate the capital adequacy of the Company. RBC is determined by statutory rules that consider risks related to the type and quality of invested assets, insurance-related risks associated with the Company's products, interest-rate risk and general business risks. Disruptions in the capital markets could increase credit losses and reduce the Company's statutory surplus and RBC ratio. To the extent that the Company's statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, the Company may seek to improve its capital position, including through operational changes and potentially seeking capital from New York Life.

The Company's risk management policies and procedures may leave it exposed to unidentified or unanticipated risks, which could negatively affect the Company's business.

The Company has devoted significant resources to develop and periodically update its risk management policies and procedures and expects to do so in the future. However, the Company's policies and procedures to identify, monitor and manage risks may not be fully effective. Many of the methods used by the Company to manage risk and exposures are based on the use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or is otherwise accessible to the Company, which may not always be accurate, complete, up-to-date or properly evaluated. Moreover, the Company is subject to the risk of inadequate performance of contractual obligations by third-party vendors of products and services that are used in its businesses or to whom the Company outsources certain business functions, as well as the risk of past or future misconduct by employees of its vendors and service providers, which could result in violations of law by the Company, regulatory sanctions and/or reputational or financial harm. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not always be fully effective.

Regulatory developments in the markets in which the Company operates could affect the Company's business.

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

A computer system failure or security breach could disrupt the Company's business, damage its reputation and adversely impact its profitability.

The Company relies on computer systems to conduct business, including customer service, marketing and sales activities, customer relationship management and producing financial statements. While the Company has policies, procedures, automation and backup plans and facilities designed to prevent or limit the effect of failure, its computer systems may be vulnerable to disruptions or breaches as the result of natural disasters, man-made disasters, criminal activity, pandemics, or other events beyond its control. The failure of the

NOTE 4 – BUSINESS RISKS AND UNCERTAINTIES (continued)

Company's computer systems for any reason could disrupt its operations, result in the loss of customer business and adversely impact its profitability.

The Company retains confidential information on its computer systems, including customer information and proprietary business information. Any compromise of the security of the Company's computer systems that results in the disclosure of personally identifiable customer information could damage the Company's reputation, expose the Company to litigation, increase regulatory scrutiny and require it to incur significant technical, legal and other expenses.

NOTE 5 – RECENT ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Principles

Accounting changes adopted to conform to the provisions of NAIC SAP or other state prescribed accounting practices are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is generally reported as an adjustment to unassigned surplus in the period of the change in accounting principle. Generally, the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

In 2015, the NAIC provided clarification on the accounting for prepayment penalties on bonds. Specifically, the NAIC proposed changes to SSAP No. 26, *"Bonds, Excluding Loan-backed and Structured Securities"* ("SSAP 26"), and SSAP No. 43R, *"Loan-Backed and Structured Securities"*, to clarify that a prepayment penalty represents the amount of proceeds received over the par value of the bond and that such amount should be recorded in investment income. Historically, the Company had reported prepayment penalties as realized gains and deferred them in the IMR based on the Company's interpretation of the IMR instructions. Based on the new clarification from the NAIC, a cumulative effect of change in accounting principle was recorded as of January 1, 2015 to remove any unamortized amounts from the IMR related to prepayment penalties. The cumulative impact of the change increased surplus by $99 thousand at January 1, 2015.

Adoption of New Accounting Pronouncements

In March 2015, the NAIC adopted revisions to SSAP No. 69, "*Statement of Cash Flow*", which clarify that the cash flow statement should be limited to transactions involving "cash", which is defined to include cash, cash equivalents and short-term investments, and to expand the disclosure to include non-cash operating items. The guidance became effective December 31, 2015 and did not have a material effect on the Company's financial statements and note disclosures.

In June 2014, the NAIC adopted revisions to SSAP 26, which required new disclosures for bonds that meet the definition of a structured note. The NAIC has defined a structured note as direct debt issuance by a corporation, municipality, or government entity, ranking pari passu with the issuer's other debt issuance of equal seniority where either (1) the coupon and/or principal payments are linked, in whole or in part, to prices or payment streams from index or indices, or assets deriving their value from other than the issuer's credit quality, or the coupon and/or principal payments are leveraged by a formula that is different from either a fixed coupon, or (2) a non-leverage floating rate coupon linked to an interest rate index, including but not limited to LIBOR or the prime rate. The new disclosure requirement became effective December 31, 2014 and is included in Note 6 - Investments.

NOTE 6 - INVESTMENTS

Bonds

The carrying value and estimated fair value of bonds as of December 31, 2015 and 2014, by contractual maturity are presented below (in thousands). Refer to Note 7 – Fair Value Measurements, for discussion of valuation methods for bonds. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Due in one year or less	$ 14,894	$ 15,121	$ 13,154	$ 13,465
Due after one year through five years	40,584	41,927	57,690	60,406
Due after five years through ten years	58,765	58,747	50,105	51,230
Due after ten years	1,351	1,453	1,639	1,789
Mortgage and asset-backed securities:				
U.S. agency mortgage and asset-backed securities	25,485	25,872	17,658	18,052
Non-agency mortgage-backed securities	10,807	10,963	11,434	11,921
Non-agency asset backed-securities	970	1,060	1,137	1,273
Total	$ 152,856	$ 155,143	$ 152,817	$ 158,136

At December 31, 2015 and 2014, the distribution of gross unrealized gains and losses on bonds was as follows (in thousands):

	2015			
	Carrying Amount	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury	$ 5,545	$ 63	$ 11	$ 5,597
U.S. agency mortgage and asset-backed securities	25,485	644	259	25,870
Foreign governments	3,022	96	4	3,114
U.S. corporate	85,109	2,134	838	86,405
Foreign corporate	21,918	447	231	22,134
Non-agency residential mortgage-backed securities	237	11	1	247
Non-agency commercial mortgage-backed securities	10,570	156	10	10,716
Non-agency asset-backed securities	970	90	—	1,060
Total	$ 152,856	$ 3,641	$ 1,354	$ 155,143

NOTE 6 – INVESTMENTS (continued)

	2014			
	Carrying Amount	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury	$ 11,029	$ 123	$ 8	$ 11,144
U.S. agency mortgage and asset-backed securities	17,658	752	358	18,052
Foreign governments	3,021	172	—	3,193
U.S. corporate	86,130	3,694	334	89,490
Foreign corporate	22,407	736	81	23,062
Non-agency residential mortgage-backed securities	264	14	3	275
Non-agency commercial mortgage-backed securities	11,171	478	2	11,647
Non-agency asset-backed securities	1,137	136	—	1,273
Total	$ 152,817	$ 6,105	$ 786	$ 158,136

Other Invested Assets

The Company used to invest in the New York Life Short Term Fund ("NYL STIF"), which primarily invested in short-term U.S. government and agency securities, certificates of deposit, floating rate notes, commercial paper, repurchase agreements, and asset-backed securities. The Company's share of investments in the NYL STIF totaled $1 thousand and $2,986 thousand at December 31, 2015 and 2014, respectively. Net unrealized losses of $8 thousand and net unrealized gains of less than $1 thousand were recorded on the NYL STIF for the years ended December 31, 2015 and 2014.

The NYL STIF was substantially liquidated in 2015 and the Company now invests directly in short-term instruments, which are included with cash, cash equivalents and short-term investments in the accompanying Statutory Statements of Financial Position.

Assets on Deposit

Assets with a carrying value of $3,836 thousand and $3,870 thousand at December 31, 2015 and 2014, respectively, were on deposit with government authorities or trustees as required by certain state insurance laws and are included with bonds in the accompanying Statutory Statements of Financial Position.

At December 31, 2015 and 2014, the Company's restricted assets were as follows (in thousands):

December 31, 2015						
	Gross Restricted				Percentage	
Restricted Asset Category	Total Current Year	Total From Prior Year	Increase / (Decrease)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
On deposit with states	$ 3,836	$ 3,870	$ (34)	$ 3,836	1.894%	1.914%

December 31, 2014						
	Gross Restricted				Percentage	
Restricted Asset Category	Total Current Year	Total From Prior Year	Increase / (Decrease)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
On deposit with states	3,870	3,902	(32)	3,870	1.911%	1.937%

NOTE 7 – FAIR VALUE MEASUREMENTS

The Company's financial assets and liabilities have been classified, for disclosure purposes, based on a hierarchy defined by SSAP No. 100, *"Fair Value Measurements."* Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

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

Level 1 Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. Active markets are defined as a market in which many transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active for identical or similar assets or liabilities, or other model driven inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Valuations are generally obtained from third-party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs.

Level 3 Instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions in pricing the asset or liability. Pricing may also be based upon broker quotes that do not represent an offer to transact. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. To the extent the internally developed valuations use significant unobservable inputs, they are classified as Level 3.

The Company had no investments held at fair value as of December 31, 2015 and 2014.

Determination of Fair Value

The Company has an established and well-documented process for determining fair value. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from nationally recognized third-party pricing services. For most private placement securities, the Company applies a matrix-based pricing methodology, which uses spreads derived from third-party benchmark bond indices. For private placement securities that cannot be priced through these processes, the Company uses internal models and calculations. All other securities are submitted to independent brokers for prices. The Company performs various analyses to ascertain that the prices represent fair value. Examples of procedures performed include, but are not limited to, back testing recent trades, monitoring of trading volumes, and performing variance analysis of monthly price changes using different thresholds based on asset type. The Company also performs an annual review of all third-party pricing services. During this review, the Company obtains an understanding of the process and sources used by the pricing service to ensure that they maximize the use of observable inputs, the pricing service's frequency of updating prices, and the controls that the pricing service uses to

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

ensure that their prices reflect market assumptions. The Company also selects a sample of securities and obtains a more detailed understanding from each pricing service regarding how they derived the price assigned to each security. Where inputs or prices do not reflect market participant assumptions, the Company will challenge these prices and apply different methodologies that will enhance the use of observable inputs and data. The Company may use non-binding broker quotes or internal valuations to support the fair value of securities that go through this formal price challenge process. At December 31, 2015, the Company did not challenge any prices it received from third-party pricing services. The number of price challenges at December 31, 2014 was insignificant.

In addition, the Company has a pricing committee that provides oversight over the Company's prices and fair value process for securities. The committee is comprised of representatives from the Company's Investment Management group, Controller's, Compliance and Security Operations. The committee meets quarterly and is responsible for the review and approval of the Company's valuation procedures. The committee is also responsible for the review of pricing exception reports as well as the review of significant inputs used in the valuation of assets that are valued internally.

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2015 (in thousands):

	Fair Value	Carrying Amount	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 155,143	$ 152,856	$ —	$ 155,143	$ —	$ —
Cash, cash equivalents and short-term investments	13,166	13,166	—	13,166	—	—
Investment income due and accrued	1,115	1,115	—	1,115	—	—
Total assets	$ 169,424	$ 167,137	$ —	$ 169,424	$ —	$ —
Liabilities:						
Deposit fund contracts	$ 2,944	$ 2,944	$ —	$ —	$ 2,944	$ —
Premiums paid in advance	129	129	—	129	—	—
Total liabilities	$ 3,073	$ 3,073	$ —	$ 129	$ 2,944	$ —

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2014 (in thousands):

	Fair Value	Carrying Amount	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 158,136	$ 152,817	$ —	$ 158,136	$ —	$ —
Cash, cash equivalents and short-term investments	4,365	4,365	—	4,365	—	—
Investment income due and accrued	1,182	1,182	—	1,182	—	—
Total assets	$ 163,683	$ 158,364	$ —	$ 163,683	$ —	$ —
Liabilities:						
Deposit fund contracts	$ 3,817	$ 3,817	$ —	$ —	$ 3,817	$ —
Premiums paid in advance	167	167	—	167	—	—
Total liabilities	$ 3,984	$ 3,984	$ —	$ 167	$ 3,817	$ —

Bonds

Securities priced using a pricing service are classified as Level 2. The pricing service generally uses a discounted cash-flow model or market approach to determine fair value on public securities. Typical inputs used by these pricing services include, but are not limited to: benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds, which the Company has determined are observable inputs.

Private placement securities are primarily priced using a matrix-based pricing methodology, which uses spreads derived from third-party benchmark bond indices. Specifically, the Barclays Credit Index is used for investment-grade securities and the Citi High Yield Cash Index is used for below investment-grade securities. These indices are two widely recognizable, reliable and well regarded benchmarks by participants in the financial industry which represent the broader U.S. public bond markets. The spreads derived from each matrix are adjusted for liquidity. The liquidity premium is standardized and based on market transactions.

Certain private placement securities that cannot be priced using the matrix pricing described above, are priced by an internally developed discounted cash flow model or are based on internal calculations. The model uses observable inputs with a discount rate based off spreads of comparable public bond issues, adjusted for liquidity, rating and maturity. The Company assigns a credit rating for private placement securities based upon internal analysis. The liquidity premium is usually based on market transactions. These securities are classified as Level 2.

For some of the private placement securities priced through the model, the liquidity adjustments may not be based on market data, but rather, calculated internally. If the impact of the liquidity adjustment, which usually requires the most judgment, is not significant to the overall value of the security, the security is still classified as Level 2. If it is deemed to be significant, the security is classified as Level 3.

The valuation techniques for most Level 3 bonds are generally the same as those described in Level 2. However, if the investments are less liquid or are lightly traded, there is generally less observable market data, and therefore these investments will be classified as Level 3. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. In addition, certain securities are priced based upon internal valuations using significant unobservable inputs. If a security could not be priced by a third-party vendor or through internal pricing models, broker quotes are received and reviewed by each investment analyst. These inputs may not be observable therefore Level 3 classification is determined to be appropriate.

Cash, cash equivalents and short-term investments and investment income due and accrued

Cash on hand is classified as Level 1. Cash overdrafts (i.e. outstanding checks) are classified as Level 2. Due to the short-term maturities of cash equivalents, short-term investments, and investment income due and accrued, carrying value is presumed to approximate fair value and is classified as Level 2.

Deposit fund contracts

Deposit fund contracts consists of continued interest accounts and the fair value is estimated to be equal to the account value since they can be withdrawn at anytime and without prior notice.

Premiums paid in advance

For premiums paid in advance, the carrying value of the liability approximates fair value.

NOTE 8 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Bonds	$ 5,495	$ 5,370
Cash and short-term investments	4	13
Other invested assets	2	3
Gross investment income	5,501	5,386
Investment expenses	(178)	(158)
Net investment income	5,323	5,228
Amortization of IMR	6	42
Net investment income, including IMR	$ 5,329	$ 5,270

Proceeds from investments in bonds sold were $16,075 thousand and $4,560 thousand for the years ended December 31, 2015 and 2014, respectively.

NOTE 8 – INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

For the years ended December 31, 2015 and 2014, realized capital gains and losses on sales computed under the specific identification method were as follows (in thousands):

	2015		2014	
	Gains	Losses	Gains	Losses
Bonds	$ 201	$ 47	$ 87	$ 53
Other invested assets	8	—	—	—
	$ 209	$ 47	$ 87	$ 53

	2015	2014
Net realized capital gains before tax and transfer to the IMR	$ 162	$ 34
Less:		
Capital gains tax expense	(54)	(16)
Net realized capital gains before transfer to IMR	$ 108	$ 18
Net realized capital gains after tax transferred to IMR	(98)	(24)
Net realized capital gains (losses) after tax and transfers to the IMR	$ 10	$ (6)

Included in the realized capital losses are other-than-temporary impairments on bonds of $2 thousand and $8 thousand for the years ended December 31, 2015 and 2014, respectively.

The following table lists each loan-backed and structured security at a CUSIP level where the present value of cash flows expected to be collected is less than the amortized cost basis for the year ended December 31, 2015 (in thousands):

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

CUSIP[1]	Amortized cost before current period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
251511AC5	$ 73,365	$ 72,273	$ 773	$ 72,592	$ 72,070	12/31/2015
251511AF8	43,635	42,975	470	43,165	42,460	12/31/2015
251511AC5	79,585	78,732	454	79,131	81,172	3/31/2015
251511AF8	47,323	46,815	269	47,054	47,787	3/31/2015
Total	XXX	XXX	$ 1,966	XXX	XXX	

[1] Only the impaired lots within each CUSIP are included within this table.

NOTE 8 – INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

The following tables present the Company's gross unrealized losses and fair values for bonds aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014 (in thousands):

	2015					
	Less than 12 months		Greater than 12 months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Bonds						
U.S. Treasury	$ 2,858	$ 9	$ 198	$ 2	$ 3,056	$ 11
U.S. agency mortgage and asset-backed securities	7,654	152	3,310	107	10,964	259
U.S. corporate	29,705	775	2,512	63	32,217	838
Foreign government	744	4	—	—	744	4
Foreign corporate	11,986	177	1,445	54	13,431	231
Non-agency residential mortgage-backed securities	115	1	—	—	115	1
Non-agency commercial mortgage-backed securities	1,307	10	—	—	1,307	10
Total	$ 54,369	$ 1,128	$ 7,465	$ 226	$ 61,834	$ 1,354

	2014					
	Less than 12 months		Greater than 12 months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Bonds						
U.S. Treasury	$ —	$ —	$ 1,559	$ 8	$ 1,559	$ 8
U.S. agency mortgage and asset-backed securities	—	—	8,688	358	8,688	358
U.S. corporate	6,763	40	15,414	294	22,177	334
Foreign corporate	4,770	26	2,951	55	7,721	81
Non-agency residential mortgage-backed securities	—	—	125	3	125	3
Non-agency commercial mortgage-backed securities	419	1	203	1	622	2
Total	$ 11,952	$ 67	$ 28,940	$ 719	$ 40,892	$ 786

At December 31, 2015, the gross unrealized loss on bonds was comprised of approximately 137 different securities. Of the total amount of bond unrealized losses, $1,353 thousand or 99.9% is related to unrealized losses on investment grade securities. Investment grade is defined as a security having a credit rating from the NAIC of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); or a comparable internal rating if an externally provided rating is not available. Unrealized losses on bonds with a rating below investment grade represent $1 thousand or 0.1% of the total amount of bond unrealized losses.

There were no bonds where fair value had declined by 20% or more of the amortized cost at December 31, 2015.

NOTE 9 – RELATED PARTY TRANSACTIONS

New York Life provides the Company with certain services and facilities including, but not limited to, accounting, tax and auditing services; legal services; actuarial services; electronic data processing operations; and communications operations. New York Life charges the Company for the identified costs associated with these services and facilities under the terms of a service agreement between New York Life and the Company. For the years ended December 31, 2015 and 2014, the fees incurred associated with these services and facilities, amounted to $3,308 thousand and $2,455 thousand, respectively, and are reflected in operating expenses and net investment income in the accompanying Statutory Statements of Operations.

The Company has entered into investment advisory and administrative services agreements with New York Life Investment Management LLC ("NYLIM"), an indirect wholly owned subsidiary of New York Life, whereby NYLIM provides investment advisory and administrative services to the Company. On May 1, 2014, NYLIM assigned its investment advisory rights and obligations under this agreement to NYL Investors LLC, a wholly owned subsidiary of New York Life. For the years ended December 31, 2015 and 2014, the total cost for these services amounted to $150 thousand and $148 thousand, respectively, which is included in the costs of services billed by New York Life to the Company.

The Company reported $3,656 thousand and $2,718 thousand as amounts payable to parent and affiliates at December 31, 2015 and 2014, respectively. The terms of the agreement require that these amounts be settled in cash within 90 days.

The Company compensates New York Life and New York Life Insurance and Annuity Corporation ("NYLIAC"), a wholly-owned subsidiary of New York Life, for policy credits associated with converting the Company's term policies to permanent cash value life insurance policies issued by New York Life and NYLIAC without any additional underwriting.

The Company incurred the following conversion charges during 2015 and 2014 (in thousands):

	2015	2014
New York Life	$ 833	$ 1,009
NYLIAC	3,760	4,134
Total	$ 4,593	$ 5,143

NOTE 10 – INSURANCE LIABILITIES

Policy Reserves and Deposit Fund Liabilities

At December 31, 2015 and 2014, total direct life reserves were $112,410 thousand and $131,042 thousand, respectively, with none of the policies having surrender privileges since the Company wrote only term policies.

Reserves for life insurance policies are maintained principally using the 1980 and 2001 Commissioners' Standard Ordinary ("CSO") Mortality Tables under the net level premium method or the Commissioners' Reserve Valuation Method ("CRVM") with valuation interest rates of 4.5% and 4.0%, respectively.

The Company has established policy reserves (excluding the effects of reinsurance) on contracts issued January 1, 2001 and later that exceed the minimum amounts determined under Appendix A-820, "*Minimum Life and Annuity Reserve Standards*" of NAIC SAP by approximately $5 thousand and $14 thousand in 2015 and 2014, respectively. The change in direct reserves increased pre-tax net gain for the years ended December 31, 2015 and 2014 by approximately $9 thousand and $37 thousand, respectively.

The Company waives deductions of deferred fractional premiums upon death of the insured and returns a portion of the final premium beyond the date of death. No surrender values are promised in excess of the total reserves. Certain substandard policies are valued on tables that are multiples of the standard table. Other substandard policies are valued as equivalent to standard lives on the basis of insurance age. Additional reserves are held on account of anticipated extra mortality for policies subject to extra premiums.

At December 31, 2015 and 2014, the Company had $6,200 thousand and $11,610 thousand, respectively, of insurance in force for which the gross premiums were less than the net premiums according to the standard of valuation set by the State of Arizona.

Tabular interest credited to policy reserves and the tabular less actual reserve released have been determined by formula as described in the NAIC instructions. The tabular cost has been determined by formula as described in the NAIC instructions adjusted for the difference in valuation mortality in different years between the tabular cost of mortality floor and the rest of the Regulation XXX calculation.

The following table reflects the withdrawal characteristics of deposit fund liabilities as of December 31, 2015 and 2014 (in thousands):

	2015	2014
At book value without adjustment	$ 2,944	$ 3,817

At December 31, 2015 and 2014, deposit fund liabilities of $2,944 thousand and $3,817 thousand, respectively, were all eligible for surrender and payable in cash to depositors.

NOTE 11 – REINSURANCE

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

Life insurance reinsured was 49% and 48% of total life insurance in force at December 31, 2015 and 2014, respectively. The reserve reductions taken for life insurance reinsured at December 31, 2015 and 2014 were $22,800 thousand and $25,900 thousand, respectively.

NOTE 11 – REINSURANCE (continued)

The effects of reinsurance for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Premiums:		
Direct	$ 42,926	$ 51,142
Assumed	223	278
Ceded	19,843	18,431
Net premiums	$ 23,306	$ 32,989
Policyholders' benefits ceded	$ 15,104	$ 16,536
Reinsurance recoverable	$ 781	$ 1,126

The Company has reinsurance agreements with New York Life Agents Reinsurance Company ("NYLARC"). NYLARC is a life insurance company wholly owned by NYLARC Holding Company, Inc., whose shareholders consist of New York Life's top agents who meet certain criteria and who may also be agents of the Company or NYLIAC. NYLARC reinsures a portion of certain life insurance products sold by its shareholders. NYLARC's purpose is to retain high production agents, and increase the volume and quality of the business that they submit to New York Life, NYLIAC and the Company.

On January 1, 2014, the Company terminated the $300 thousand maximum retention limit reinsurance and Stop Loss agreement with New York Life that was established in 1998. It was replaced with a Stop Loss agreement that covers claims in each calendar year in excess of $30,000 thousand. The premiums for this coverage were $160 thousand for December 31, 2015 and 2014.

NOTE 12 – BENEFIT PLANS

The Company participates in the cost of the following plans sponsored by New York Life: (1) certain postretirement life and health benefits for retired employees and agents including their eligible dependents, (2) certain defined benefit pension plans for eligible employees and agents, (3) certain defined contribution plans for substantially all employees and agents and (4) postemployment benefits. The expense for these plans is allocated to the Company in accordance with an intercompany cost sharing agreement. The liabilities for these plans are included with the liabilities for the corresponding plan of New York Life. The Company's share of the cost of these plans was as follows for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Postretirement life and health	$ 178	$ 185
Defined benefit pension	185	143
Defined contribution	40	51
Post employment	10	(1)
Total	$ 413	$ 378

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Support and Credit Agreements

On November 16, 2015, the Company terminated an outstanding credit agreement with New York Life Capital Corporation ("NYLCC"), an indirect wholly-owned subsidiary of New York Life, as dated November 1, 2005, under which the Company may borrow from NYLCC an aggregate principal amount of up to $40,000 thousand. During 2015 and 2014, the credit facility was not used, no interest was paid and there was no outstanding balance due.

The Company has a credit agreement with New York Life dated August 11, 2004 under which the Company may borrow up to $10,000 thousand from New York Life. During 2015 and 2014, the credit facility was not used, no interest was paid and there was no outstanding balance due.

Litigation

The Company, along with New York Life and NYLIAC, is a defendant in one consolidated purported class action suit arising from its agency sales force. The lawsuit seeks, among other things, extra contractual damages. Notwithstanding the uncertain nature of litigation, 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 this litigation would not have a material adverse effect on the Company's financial position; however, it is possible that a settlement or adverse determination in this action or other proceedings in the future could have a material adverse effect on the Company's operating results for a given year.

Liens

Several commercial banks have customary security interests in certain assets of the Company to secure potential overdrafts and other liabilities of the Company that may arise under custody and other banking agreements with such banks.

NOTE 14 - INCOME TAXES

The components of the net DTAs and DTLs for the years ended December 31, 2015 and 2014 are as follows (in thousands):

	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	$ 18,216	$ 7	$ 18,223	$ 27,397	$ 7	$ 27,404	$ (9,181)	$ —	$ (9,181)
Statutory valuation allowance	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs	18,216	7	18,223	27,397	7	27,404	(9,181)	—	(9,181)
Nonadmitted DTAs	939	5	944	2,329	5	2,334	(1,390)	—	(1,390)
Subtotal net admitted DTAs	17,277	2	17,279	25,068	2	25,070	(7,791)	—	(7,791)
Gross DTLs	11,338	2	11,340	18,844	2	18,846	(7,506)	—	(7,506)
Net admitted DTAs/(DTLs)	$ 5,939	$ —	$ 5,939	$ 6,224	$ —	$ 6,224	$ (285)	$ —	$ (285)

Net DTAs are non-admitted primarily because they are not expected to be realized within three years of the balance sheet date. The admitted portion of the net DTAs is included in net deferred tax assets in the accompanying Statutory Statements of Financial Position.

The admission calculation components for the years ended December 31, 2015 and 2014 are as follows (paragraph references throughout Note 14 are to paragraphs of SSAP No. 101) (in thousands):

	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carry backs (Paragraph 11.a)	$ 5,939	$ —	$ 5,939	$ 6,224	$ —	$ 6,224	$ (285)	$ —	$ (285)
Adjusted gross DTAs expected to be realized (excluding the amount of DTAs from paragraph 11.a above) after application of the threshold limitation (the lesser of paragraph 11.b.i and 11.b.ii below):									
Adjusted gross DTAs expected to be realized following the balance sheet date (Paragraph 11.b.i)	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs allowed per limitation threshold (Paragraph 11.b.ii)	N/A	N/A	12,786	N/A	N/A	11,013	N/A	N/A	1,773
Adjusted gross DTAs (excluding the amount of DTAs from paragraphs 11.a and 11.b above) offset by gross DTLs (Paragraph 11.c)	11,338	2	11,340	18,844	2	18,846	(7,506)	—	(7,506)
DTAs admitted as the result of application of SSAP 101 (Totals of paragraphs 11.a, 11.b, 11.c).	$ 17,277	$ 2	$ 17,279	$ 25,068	$ 2	$ 25,070	$ (7,791)	$ —	$ (7,791)

NOTE 14 - INCOME TAXES (continued)

The ratio used to determine the applicable period used in paragraph 11.b.i above and the amount of adjusted capital and surplus used to determine the percentage threshold limitation in paragraph 11.b.ii above are as follows ($ in thousands):

	December 31,			
	2015		2014	
Ratio percentage used to determine recovery period and threshold limitation amount.		2024%		1482%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in paragraph 11.b.ii above.	$	85,237	$	73,423

There was no impact on the Company's adjusted gross and net admitted DTAs due to tax planning strategies for December 31, 2015 and 2014. The Company did not use reinsurance in its tax planning strategies.

The Company had no unrecognized DTL's for December 31, 2015 and 2014. At December 31, 2015 and 2014, the Company had no adjustments of a DTAs or DTLs for enacted changes in tax laws or rates, or a change in tax status. Additionally, the Company had no adjustments to gross DTAs because of a change in circumstances that causes a change in judgment about the realizability of the related DTAs.

Significant components of the current federal income tax expense incurred for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015		2014		Change	
Federal current income tax[1]	$	4,823	$	3,435	$	1,388
Federal income tax on net capital gains		54		16		38
Other - Refer to Note 2 - Basis of Presentation		—		(25)		25
Total federal income tax expense incurred	$	4,877	$	3,426	$	1,451

[1] The Company had no investment tax credits for the years ended December 31, 2015 and 2014.

NOTE 14 - INCOME TAXES (continued)

The tax effects of temporary differences that give rise to DTAs and DTLs for the years ended December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014	Change
DTAs			
Ordinary			
Policyholder reserves	$ 10,435	$ 19,151	$ (8,716)
Deferred acquisition costs	7,451	8,113	(662)
Fixed assets	78	82	(4)
Other	252	51	201
Subtotal	18,216	27,397	(9,181)
Nonadmitted	939	2,329	(1,390)
Admitted ordinary DTAs	17,277	25,068	(7,791)
Capital			
Investments	7	7	—
Nonadmitted	5	5	—
Admitted capital DTAs	2	2	—
Total admitted DTAs	17,279	25,070	(7,791)
DTLs			
Ordinary			
Deferred and uncollected premium	9,281	16,121	(6,840)
Investments	149	238	(89)
Policyholder reserves	1,908	2,485	(577)
Subtotal	11,338	18,844	(7,506)
Capital			
Investments	2	2	—
Total DTLs	11,340	18,846	(7,506)
Net admitted DTAs/(DTLs)	$ 5,939	$ 6,224	$ (285)

Deferred income tax benefit on change in net unrealized capital gains and losses	$ (3)
Decrease in net deferred tax related to other items	(1,672)
Increase in deferred tax asset nonadmitted	1,390
Total change in net admitted deferred tax asset	$ (285)

NOTE 14 - INCOME TAXES (continued)

The Company's income tax expense for the years ended December 31, 2015 and 2014 differs from the amount obtained by applying the statutory rate of 35% to net gain from operations after dividends to policyholders and before federal income taxes for the following reasons (in thousands):

	2015	2014	Change
Net gain from operations after dividends to policyholders and before federal income taxes at 35%	$ 5,896	$ 5,068	$ 828
Net realized capital gains at 35%	54	12	42
Amortization of IMR	(2)	(15)	13
Prior year audit liability and settlement	614	87	527
Nonadmitted assets	(238)	(20)	(218)
Accruals in surplus	—	408	(408)
Prior period correction	—	(25)	25
Other	225	—	225
Income tax incurred and change in net DTAs during period	$ 6,549	$ 5,515	$ 1,034
Federal income taxes reported in the Summary of Operations	$ 4,823	$ 3,435	$ 1,388
Capital gains tax benefits incurred	54	16	38
Change in net deferred income taxes	1,672	2,089	(417)
Prior period correction	—	(25)	25
Total statutory income tax expense	$ 6,549	$ 5,515	$ 1,034

The Company's federal income tax returns are routinely audited by the Internal Revenue Service ("IRS") and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 2007, tax years 2008 through 2010 are currently with the IRS Office of Appeals. There were no material effects on the Company's Statutory Statements of Operations as a result of these audits. The Company believes that its recorded income tax liabilities are adequate for all open years.

The Company did not have any operating loss and tax credit carry forwards available for tax purposes. The total income taxes incurred in prior years that will be available for recoupment in the event of future net losses total $4,575 thousand, $3,112 thousand, and $3,075 thousand, related to December 31, 2015, 2014, and 2013, respectively.

The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

As discussed in Note 3 – Significant Accounting Policies - Federal Income Taxes, the Company's federal income tax return is consolidated with New York Life, NYLIAC, NYLIFE LLC, New York Life Enterprises LLC, New York Life Investment Management Holdings LLC and NYL Investors LLC.

At December 31, 2015 and 2014, the Company recorded a current income tax payable of $4,724 thousand and $5,938 thousand, respectively. The current income tax payables were included in federal income tax payable in the accompanying Statutory Statements of Financial Position.

At December 31, 2015, the Company had no protective tax deposits on deposit with the IRS under Internal Revenue Code Section 6603 of the IRS Code.

NOTE 15 – CAPITAL AND SURPLUS

Capitalization

The Company has 30,000 shares authorized, with a par value of $100 per share with 25,000 shares issued and outstanding. All shares are common stock and are all owned by New York Life. The Company has no preferred stock.

Nonadmitted Assets

Under statutory accounting rules, a nonadmitted asset is defined as an asset having economic value other than that which can be used to fulfill policyholder obligations, or those assets that are unavailable due to encumbrances or other third-party interests. These assets are not recognized in the accompanying Statutory Statements of Financial Position, and are, therefore, considered nonadmitted. The changes between years in nonadmitted assets are charged or credited directly to surplus.

The following table shows the major categories of assets that are nonadmitted at December 31, 2015 and 2014, respectively (in thousands):

	2015	2014	Change
Net deferred tax asset	$ 944	$ 2,334	$ (1,390)
Premiums	420	321	99
Other	689	108	581
Total	$ 2,053	$ 2,763	$ (710)

NOTE 16 - DIVIDENDS TO STOCKHOLDER

The Company is subject to restrictions on the payment of dividends to New York Life. Under Arizona Insurance Law, cash dividends to stockholders may only be paid out of an insurer's available surplus funds which are derived from realized net profits on its business. The Company had no available surplus funds at December 31, 2015 and December 31, 2014 from which to pay dividends. Stock dividends may be paid out of any available surplus funds that exceed the aggregate amount of surplus loaned to the insurer. No surplus funds have been loaned to the Company. In addition, generally, no extraordinary dividend (as described under Arizona Revised Statute ("A.R.S.") Section 20-481.19) may be paid or distributed to stockholders without the prior approval of the Director of Insurance of Arizona. Dividends may be declared by the Board of Directors of the Company from available surplus, as it deems appropriate, on a non-cumulative basis. No dividends were paid or declared for the years ended December 31, 2015 and 2014.

NOTE 17 – WRITTEN PREMIUMS

Deferred and uncollected life insurance premiums at December 31, 2015 and 2014, were as follows (in thousands):

	2015		2014	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary renewal	$ 18,596	$ 26,938	$ 20,449	$ 31,325

Based upon Company experience, the amount of premiums that may become uncollectible and result in a potential loss is not material to the Company's financial position. At December 31, 2015 and 2014, respectively, the Company nonadmitted $420 thousand and $321 thousand of premiums that were over 90 days past due.

NOTE 18 – SUBSEQUENT EVENTS

As of March 31, 2016, the date the financial statements were available to be issued, there have been no events occurring subsequent to the close of the Company's books or accounts for the accompanying financial statements that would have a material effect on the financial condition of the Company.