Management's Discussion and Analysis

NYLIFE INSURANCE COMPANY OF ARIZONA
December 31, 2015

Management's Discussion and Analysis of Financial Condition and Results of Operations ("**MD&A**") addresses the financial condition of NYLIFE Insurance Company of Arizona ("**the Company**") at December 31, 2015, compared with December 31, 2014, and its results of operations for the years ended December 31, 2015 and 2014. This discussion should be read in conjunction with the Statutory Financial Statements.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements that are intended to enhance the reader's ability to assess the Company's future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent the Company's beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as "may," "expects," "should" or similar expressions. Because these forward-looking statements are based on estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control or are subject to change, actual results could be materially different and the value of the Company's investments, its financial condition and its liquidity could be adversely affected. The following uncertainties, among others, may have such an effect:

- Difficult conditions in the global capital markets and the economy.
- Significant financial and capital market risks affecting the Company's businesses, including interest rate risk, credit risk, and risk of fluctuations in credit spreads.
- Adverse regulatory developments.
- Adverse capital and credit market conditions.
- Significant market valuation fluctuations of the Company's investments.
- Downgrades or potential downgrades in the Company's ratings.
- The sensitivity of the amount of statutory capital the Company must hold to factors outside of its control.
- Subjectivity in determining the amount of allowances and impairments taken on certain of the Company's investments.
- Deviations from assumptions regarding future mortality and interest rates used in calculating reserve amounts.
- Losses due to defaults by others, including issuers of investment securities or reinsurance counterparties.
- The impact of natural or man-made disasters on the Company's operations, results of operations and financial condition.
- Changes in tax laws and the interpretation thereof.
- Litigation and regulatory investigations.
- A computer system failure or security breach.

Consequently, such forward-looking statements should be regarded solely as the Company's current plans, estimates and beliefs. The Company does not intend, and does not undertake, any obligation to update any forward-looking statements to reflect future events or circumstances after the date of such statements.

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OVERVIEW

The Company, a direct, wholly owned subsidiary of New York Life Insurance Company ("**New York Life**") was incorporated in Arizona on July 23, 1987 for the purpose of engaging in non-participating life and health insurance and annuity business. The Company currently services a ten-year guaranteed term life insurance product called "Term to Age 90". Key features of this product include annual renewable term rates after ten years, a 10-year attained age term conversion privilege and a partially levelized agent commission structure. The Company stopped new sales of the Term to Age 90 product in May of 2011.

The Company is authorized to conduct life insurance and annuity business in 48 states (the Company is not authorized in New York and Maine) and the District of Columbia.

Income, Benefits and Expenses

The Company derives its income principally from premiums on its Term to Age 90 product and net investment income. The Company's benefits and expenses consist principally of insurance benefits paid to policyholders and beneficiaries, reserves for future policy holder benefits, and operating expenses, including administrative costs and commissions.

The Company's profitability depends primarily on the adequacy of its product pricing, which is a function of its ability to select underwriting risk, its mortality and persistency experience, its ability to generate earnings and manage credit risk on the investments supporting its products and its ability to control expenses in accordance with its pricing assumptions.

CRITICAL ACCOUNTING ESTIMATES

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

The Company has identified the following estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability: valuation of investments, and reserves. In developing these estimates, management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available as of the date of the financial statement.

Investments

One significant estimate inherent in the valuation of investments is the evaluation of other-than-temporary impairments ("**OTTI**"). The evaluation of OTTI is a quantitative and qualitative process, which is subject to judgment in the determination of whether declines in the fair value of investments are other than temporary. The key judgment is the determination of when to recognize the impairment. For bonds, impairments require more judgment. A company must demonstrate the ability and intent to hold a security for a period of time sufficient to allow for an anticipated recovery in value and needs to have a comprehensive process to review its portfolio on a regular basis to assess its holdings. The Company, as part of its impairment policy, performs both quantitative and qualitative analysis to determine if a decline in value was temporary. Factors considered in evaluating whether a decline in value is other than temporary include: (1) whether the decline is substantial; (2) 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. For those securities where the decline was considered temporary, the Company did not recognize an impairment when it had the ability and intent to hold until recovery.

Policy Reserves

Reserves for life insurance contracts are generally based on mortality tables and valuation interest rates, which are consistent with statutory requirements. These reserves are expected to be sufficient to meet the Company's various policy and contract obligations as they become due. Changes in or deviations from the assumptions used for mortality, expected future premiums and interest can significantly affect the Company's reserve levels and related future operations.

In some situations, the Company may need to hold statutory reserves greater than those developed under the minimum statutory reserving rules. Annually, the Company's appointed actuary is required by the regulators to test the adequacy of the statutory reserves using asset adequacy analyses. The dominant asset adequacy analysis technique is cash flow testing, which utilizes prescribed interest rate scenarios using detailed actuarial models. If the appointed actuary determines that the statutory reserves being tested are inadequate, additional statutory reserves are established. At the end of the process, the appointed actuary must opine that the statutory reserves are adequate to support the anticipated liabilities when considered in light of the assets held by the Company.

Also, an estimate is used in the development of the liability for claims incurred but not reported ("**IBNR**"). IBNR refers to an estimate of losses that have occurred prior to the statement date, but have not yet been reported to the Company. The IBNR liability is developed based on historical experience.

RESULTS OF OPERATIONS

The following table illustrates the Company's results of operations for the years ended December 31, 2015 and 2014 ($ in thousands):

	2015	2014	Change $	Change %
Income:				
Premiums	$ 23,306	$ 32,989	$ (9,683)	(29.4)%
Net investment income	5,329	5,270	59	1.1
Commissions and expense allowances on reinsurance ceded	1,051	1,110	(59)	(5.3)
Total income	29,686	39,369	(9,683)	(24.6)
Benefits and expenses:				
Benefit payments	20,622	22,345	(1,723)	(7.7)
Reduction to policy reserves	(12,350)	(1,786)	(10,564)	nm
Operating expenses	4,568	4,331	237	5.5
Total benefits and expenses	12,840	24,890	(12,050)	(48.4)
Gain from operations before federal income taxes	16,846	14,479	2,367	16.3
Federal income taxes	4,823	3,435	1,388	40.4
Net gain from operations	12,023	11,044	979	8.9
Net realized capital gains/(losses) after tax and transfers to interest maintenance reserve ("IMR")	10	(6)	16	nm
Net income	$ 12,033	$ 11,038	$ 995	9.0 %

nm = not meaningful

Net Income

The Company’s net income was primarily derived from net gain from operations, which was $995 thousand higher than the amount reported for 2014. See detail explanation below:

Premiums

The $9,683 thousand decrease in premiums from 2015 to 2014 was primarily due to the decline in the number of policies inforce due to terminations from lapses, deaths and conversions.

Net Investment Income

Net investment income for the year ended December 31, 2015 increased $59 thousand over the prior year. The increase was primarily driven by higher income on bond.

Benefit Payments

Benefit payments decreased $1,723 thousand from 2014 primarily due to lower death benefits of $1,218 thousand and conversion charges of $550 thousand. The lower death benefits were due to a more favorable mortality experience in 2015. Conversion charges are payments to New York Life or New York Life Insurance and Annuity Corporation ("**NYLIAC**"), a wholly owned domestic subsidiary of New York Life, for assuming the extra risk in connection 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.

Reduction to Policy Reserves

The Company's reserves decreased in 2015 when compared to 2014. The decrease is mainly attributable to increased lapses and conversions to permanent life insurance policies issued by New York Life and NYLIAC. The Company's in force block of term insurance continues to age and as the block matures, the reserve requirements decrease.

Operating Expenses

The Company's operating expenses include general insurance expenses, taxes (other than federal income taxes), licenses and fees and commissions. For the year ended December 31, 2015 operating expenses increased $237 thousand from the amount reported in prior year. The majority of the general expenses are allocated from New York Life under a service agreement. Under the terms of the service agreement, the Company reimburses New York Life for certain services and facilities provided to the Company.

Federal Income Taxes

The following table reconciles the tax expense calculated at the statutory rate to the tax expense reflected in the Company's results of operations for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014	Change
Pre-tax gain from operations @ 35%	$ 5,896	$ 5,068	$ 828
			—
Deferred acquisition costs	(606)	(351)	(255)
Tax basis versus statutory basis reserves adjustment	(1,504)	(1,686)	182
Amortization of change in reserve valuation	426	385	41
Other	611	19	592
	$ 4,823	$ 3,435	$ 1,388

FINANCIAL POSITION

ASSETS

The following table illustrates the Company's statutory asset position at December 31, 2015 and 2014 ($ in thousands):

	2015	2014	Change $	Change %
Invested assets:				
Bonds	$ 152,856	$ 152,817	$ 39	—%
Cash, cash equivalents and short-term investments	13,166	4,365	8,801	nm
Other invested assets	1	2,986	(2,985)	(100.0)
Total invested assets	166,023	160,168	5,855	3.7
Other than invested assets:				
Deferred and uncollected premiums	26,518	31,004	(4,486)	(14.5)
Investment income due and accrued	1,115	1,182	(67)	(5.7)
Reinsurance recoverables	781	1,125	(344)	(30.6)
Net deferred tax assets	5,939	6,224	(285)	(4.6)
Other assets	91	78	13	16.7
Total other than invested assets	34,444	39,613	(5,169)	(13.0)
Total assets	$ 200,467	$ 199,781	$ 686	0.3%

nm = not meaningful

Investment Portfolio

Invested assets are managed to support the liabilities of the Company. The Company emphasizes asset/liability management and liquidity management. Quality and diversification are essential building blocks in portfolio construction. In addition, the Company's parent takes a comprehensive enterprise view, taking measures to mitigate overall risk exposures at the corporate level.

Investment Risk Management

The Company is part of New York Life's enterprise wide investment risk management process.

New York Life follows a fundamental approach to credit analysis supporting bond purchase or sale decisions. Key factors include the stability and adequacy of cash flow in relation to debt service requirements and the outlook for growth in net income. Issuers of below investment grade bonds generally have relatively high levels of indebtedness and are thus more sensitive than issuers of investment grade bonds to adverse economic conditions or to increasing interest rates. Although private placements are relatively less liquid, they benefit from more comprehensive financial covenants and are more likely to be secured or senior in structure.

New York Life actively manages and monitors its credit risk exposure. Through its affiliate, NYL Investors LLC (**"NYL Investors"**), credit risk is managed on an individual issuer and sector basis as well as for the aggregate corporate portfolio in accordance with New York Life's investment policy guidelines. Individual issuer limits are set based on the issuer's credit rating and other factors. Credit ratings for issuers used to monitor credit risk are either from credit rating providers, or internal ratings. A comparable internal rating is used if an externally provided rating is not available. The internal ratings are maintained and monitored by an experienced group of credit analysts specialized by industry and asset type. Factors involved in determining credit ratings include financial and operating ratios, industry outlook and priority of claim. Credit limits at a portfolio level, such as industry exposures, are also established and reviewed periodically. The bond portfolio is continuously examined to identify any potential problems or events that would result in the issuer not being able to comply with the contractual terms. These are included on a "watchlist" that is routinely monitored.

Bonds

Bonds represented 92.0% and 95.4% of total invested assets at December 31, 2015 and 2014, respectively and consisted of publicly traded and private placement debt securities. At December 31, 2015 and 2014, publicly traded bonds comprised 90.0% and 91.2%, respectively, of the total bond portfolio.

It is New York Life's objective to maintain a high quality, well-diversified bond portfolio. The bond portfolio consists primarily of investment-grade corporate bonds.

An analysis of the credit quality, as determined by National Association of Insurance Commissioners **("NAIC")** designation, of the total bond portfolio at December 31, 2015 and 2014, is set forth in the following table ($ in thousands):

		2015		2014	
NAIC Designation	**Approximate Rating Agency Equivalent Designation**	**Carrying Value**	**% of Total Carrying Value**	**Carrying Value**	**% of Total Carrying Value**
1	AAA to A–	$ 144,917	94.8%	$ 145,944	95.5%
2	BBB+ to BBB–	6,471	4.2	5,685	3.7
	Investment Grade	151,388	99.0	151,629	99.2
3	BB+ to BB–	1,468	1.0	1,060	0.7
4	B+ to B-	—	—	128	0.1
5	CCC+ to CCC-	—	—	—	—
6	CC to D	—	—	—	—
	Below Investment Grade	1,468	1.0	1,188	0.8
	Total	$ 152,856	100.0%	$ 152,817	100.0%

The Company has investments that have been downgraded (i.e., fallen angels) from investment grade are included in this category and totaled $1,468 thousand and $1,188 thousand in 2015 and 2014, respectively. The Company applies the same prudent principles in managing its high yield portfolio, emphasizing diversification standards (such as limits on issuer, industry and geographic locations to minimize concentration risks), credit quality and liquidity. New York Life manages its aggregate risk exposure to investment risks against an approved risk budget and other internal limits and guidelines.

The following table presents the estimated fair value of the Company's total bond portfolio classified as performing or OTTI at December 31, 2015 and 2014. OTTI bonds are defined as bonds for which OTTI write-downs have been taken. The Company did not have any temporarily impaired bonds where the estimated fair value was below the carrying value by more than 20% as of the balance sheet date, but which continue to meet all their contractual obligations ($ in thousands):

	2015			2014		
	Carrying Value	Estimated Fair Value	% of Total Carrying Value	Carrying Value	Estimated Fair Value	% of Total Carrying Value
Performing	$ 152,619	$ 154,896	99.8%	$ 152,553	$ 157,862	99.8%
OTTI	237	247	0.2	264	274	0.2
Total	$ 152,856	$ 155,143	100.0%	$ 152,817	$ 158,136	100.0%

The Company's net unrealized gains on bonds of $2,288 thousand and $5,319 thousand at December 31, 2015 and 2014, respectively, are not reflected in the Company's Statutory Financial Statements since these bonds are held at amortized cost or the lower of amortized cost or fair value if in default (as defined by an NAIC designation 6) as required by Statutory Accounting Principles. Net unrealized gains were comprised of gross unrealized gains of $3,642 thousand and $6,104 thousand at December 31, 2015 and 2014, respectively, which were partially offset by gross unrealized losses totaling $1,354 thousand and $785 thousand at December 31, 2015 and 2014, respectively.

Cash, Cash Equivalents and Short-term Investments

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 acquisition and are carried at amortized cost, which approximates fair value. 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. At December 31, 2015, Cash, cash equivalents and short-term investments increased by $8,801 thousand from 2014 primarily due to unwinding of the New York Life Short Term Fund ("NYL STIF"), purchase of money market exempt and US treasury bills.

Other Invested Assets

The Company used to invest in the 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. 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.

Other than Invested Assets

The decrease of $5,169 thousand in other than invested assets is primarily driven by lower deferred and uncollected premium (due to the decline of policies inforce).

Liabilities

The following table illustrates the Company's statutory liability position at December 31, 2015 and 2014 ($ in thousands):

	2015	2014	Change $	Change %
Policy reserves	$ 89,608	$ 104,491	$ (14,883)	(14.2)%
Deposit funds	2,944	3,817	(873)	(22.9)
Policy claims	2,212	1,677	535	31.9
Payable to parent and affiliates	3,656	2,718	938	34.5
Other liabilities	10,387	6,577	3,810	57.9
Asset valuation reserve	484	429	55	12.8
Total liabilities	$ 109,291	$ 119,709	$ (10,418)	(8.7)%

Policy Reserves

At December 31, 2015, total policy reserves were $14,883 thousand or 14.2% lower than the amount reported at December 31, 2014. (See "Results of Operations - Reductions to Policy Reserves").

Deposit Funds

The decrease is primarily attributable to a decline in the account balance as opening of new accounts was suspended as of June 2012. Deposit fund contracts do not contain any mortality risk and consist entirely of continued interest accounts.

Policy Claims

Policy claims increased $535 thousand from the amount reported at December 31, 2014. Claims can be subject to volatility as such there were more claims for this year compared to 2014. Also, there was a disproportional increase in direct claims that were not reinsured in 2015.

Payable to Parent and Affiliates

The increase is mainly attributable to higher expenses incurred by the Company. The majority of the general expenses are allocated from New York Life under a service agreement. Under the terms of the service agreement, the Company reimburses New York Life for certain services and facilities provided to the Company.

Other Liabilities

The increase is primarily due to an increase in payable for securities, which was caused by one security that was settled in January.

STATUTORY Capital and Surplus

Statutory capital and surplus was $91,176 thousand at December 31, 2015, an increase of $11,104 thousand or 16.8% from the $80,072 thousand at December 31, 2014. The main drivers of the change in surplus are presented in the following table ($ in thousands):

		2015
Beginning surplus	$	80,072
Net income		12,033
Change in nonadmitted assets*		(680)
Change in deferred income tax		(282)
Change in accounting principles		99
Change in asset valuation reserve		(55)
Change in unrealized losses		(11)
Ending surplus	$	91,176

*Excludes the $1,390 thousand increase in nonadmitted related to deferred taxes, which is reclassified to "Change in deferred income tax".

Net income of $12,033 thousand was one of the key drivers behind the increase in surplus in 2015 (see "Results of Operations - Net Income"). Other items impacting the Company's 2015 surplus position include the following:

Change in Nonadmitted Assets

Certain assets are not allowed as admitted assets under SAP. Generally these are assets with economic value, but which cannot be readily used to pay policyholder obligations. The change in nonadmitted assets was primarily driven by increase in miscellaneous assets that was nonadmitted.

Change in Accounting Principle

In 2015, the NAIC provided clarification on the accounting for prepayment penalties on bonds. Specifically, the NAIC proposed changes 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.

LIQUIDITY SOURCES AND REQUIREMENTS

Liquidity Sources

The Company's principal cash inflows from its insurance activities are derived from life insurance premiums. The Company's principal cash inflows from investment activities result from proceeds on sales, repayments of principal, maturities of invested assets, and investment income. The following table sets forth the total available liquidity of the Company from liquid assets and other funding sources at December 31, 2015 and December 31, 2014 (in thousands):

	2015	2014
Cash and short term investments:		
Cash & cash equivalents	$ 4,938	$ 2,471
Short term investments [1]	8,230	4,880
Less: other short-term liabilities	(5,127)	—
Net cash and short term investments	8,041	7,351
Liquid Bonds:		
U.S government and agency bonds	5,597	11,145
Public corporate investment-grade bonds & collateralized mortgage obligations[2]	122,718	120,169
Liquid bonds	128,315	131,314
Total liquid assets	136,356	138,665
Other funding sources:		
Commercial paper facility	—	40,000
Credit agreement with New York Life	10,000	10,000
Total other funding sources	10,000	50,000
Total available liquidity	$ 146,356	$ 188,665

[1] Includes investments in NYL STIF of $1 thousand and $2,986 thousand at December 31, 2015 and 2014, respectively, which is reported in limited partnerships and other invested assets within Assets.

[2] Includes all public corporate investment-grade bonds & collateralized mortgage obligations regardless if they are carried above or below market value.

Liquidity Uses

The Company's principal cash outflows from its insurance activities relate to the benefit payments associated with its ten-year term product and operating expenses.

Cash Flows

Net cash provided by operating activities for the years ended December 31, 2015 and 2014 were $780 thousand and $8,378 thousand, respectively, an decrease of $7,598 thousand over the prior year. This decrease was primarily driven by a decrease in premiums and increase in income taxes paid.

Net cash from investing activities was $8,314 thousand and net cash used in investing activities was $18,514 thousand for the years ended December 31, 2015 and 2014, respectively, a increase of $26,828 thousand over the prior year mainly due to the liquidation of STIF and maturity of certain fixed income securities.

Net cash used in financing and miscellaneous activities were $293 thousand and $2,559 thousand for the years ended December 31, 2015 and 2014, respectively. The net cash applied in 2015 was primarily attributable to net cash paid for continued interest accounts of $875 thousand, a decrease of $487 thousand in misc. liability, partially offset by

$1,105 thousand increase in intercompany payables. The net cash applied in 2014 was primarily attributable to net cash paid for continued interest accounts of $1,297 thousand, a $920 thousand decrease in intercompany payables and a $467 increase in reinsurance recoverable.

FINANCING

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, the credit facility was not used, no interest was paid.

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

OUTLOOK

As of May 2011, the Company discontinued selling insurance, but will maintain its current block of in force Term to Age 90 policies. Current projections indicate that the Company will remain financially sound and will actually increase its financial strength over the next several years. There are no immediate plans to resume selling insurance although the Company may choose to do so at some point in the future.