Management's Discussion and Analysis

NEW YORK LIFE INSURANCE COMPANY

December 31, 2016

Management's Discussion and Analysis of Financial Condition and Results of Operations ("**MD&A**") addresses the financial condition of New York Life Insurance Company ("**the Company**") at December 31, 2016, compared with December 31, 2015, and its results of operations for the years ended December 31, 2016 and 2015. 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, equity risk, liquidity risk and the risk of fluctuations in credit spreads.
- Adverse regulatory developments.
- Adverse capital and credit market conditions.
- Significant market valuation fluctuations of the Company's investments, including some that are relatively illiquid.
- Significant competition in the Company's business.
- 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, morbidity and interest rates used in calculating reserve amounts and pricing the Company's products.
- Losses due to defaults by, or deteriorating credit of, third parties, including issuers of investment securities or reinsurance and derivative instrument counterparties.
- Changes in the Company's assumptions regarding the discount rate, expected rate of return, life expectancy and expected increase in compensation used for its pension and other postretirement benefit plans.
- The effectiveness of the Company's risk management policies and procedures.
- Requirements to post collateral or make payments related to declines in market value of specified assets.

- Liquidity and other risks in connection with the Company’s securities lending program.

- 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.

- Political, legal, operational, tax and other risks affecting the Company’s international businesses.

- 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 as of the date of the statements. 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 mutual life insurance company domiciled in New York State, and its subsidiaries offer a wide range of insurance and investment products and services including life insurance, long-term care ("**LTC**") insurance, annuities (including guaranteed lifetime income ("**GLI**")), pension products, mutual funds and other investment products and investment advisory services. The Company is comprised of two primary business segments: the Insurance and Agency Group and the Investments Group. These operations are conducted through the Company and its subsidiaries, including:

- New York Life Insurance and Annuity Corporation ("**NYLIAC**")
- NYLIFE Insurance Company of Arizona ("**NYLAZ**")
- New York Life Investment Management Holdings LLC and subsidiaries ("**NYL Investments**")
- NYL Investors LLC ("**NYL Investors**")
- Madison Capital Funding LLC ("**MCF**")
- New York Life Enterprises LLC and subsidiaries ("**NYLE**")
- NYLIFE LLC and subsidiaries ("**NYLIFE LLC**")

The results of the subsidiaries are included in surplus as unrealized gains and losses, and dividends from subsidiaries are recorded as a component of net investment income when declared.

The Company and NYLIAC offer their insurance and annuity products in all 50 states of the United States and the District of Columbia primarily through the Company's career agency force. In addition, NYLIAC also distributes products through third-party banks, brokers and independent financial advisors. NYLAZ is licensed in all states except New York and Maine, but ceased all sales operations in May 2011. The Company also offers individual and group life insurance, health insurance and investment products in Mexico through Seguros Monterrey New York Life, S.A. de C.V. ("**Seguros Monterrey**") an indirect subsidiary of the Company through NYLE.

Insurance and Agency Group

The Insurance and Agency Group provides individual life insurance and LTC insurance principally to middle and upper income individuals, small-to-medium-size businesses and their owners, and professionals (primarily through the Company's career Agency force). The Company conducts a significant portion of its insurance business through the Company's wholly owned subsidiary, NYLIAC, which offers variable and universal life insurance products and products specially designed for the bank-owned life insurance ("**BOLI**") and corporate-owned life insurance ("**COLI**") markets. This business segment also includes group membership association ("**GMAD**") operations, which underwrites group life and disability programs for professional and affinity organizations and Direct Operations, which has an exclusive endorsement from AARP to sell life insurance (through the Company) and fixed immediate and deferred annuities (through NYLIAC) to its members. The Insurance and Agency Group sells life insurance, health insurance and investment products in Mexico, through Seguros Monterrey.

On July 1, 2015, the Company entered into a reinsurance transaction ("**Closed Block Reinsurance**") with John Hancock Life Insurance Company (U.S.A.) and one of its affiliates ("**John Hancock**") in which the Company assumed on a coinsurance basis 100 percent of John Hancock's obligations and liabilities under the policies included in the closed block of participating policies established in connection with the demutualization of John Hancock Mutual Life Insurance Company (the "**Closed Block**"). The Company simultaneously retroceded on a coinsurance basis 40 percent of those obligations and liabilities to John Hancock on a funds-withheld arrangement. The John Hancock policies reinsured by the Company are primarily comprised of participating whole life insurance policies written prior to 2000.

At the date of the transaction, the Company incurred a net ceding commission of $413 million and received assets with a market value equal to John Hancock's statutory liability.

The assets allocated to the Closed Block are for the exclusive benefit of the policies included in the Closed Block. The insurance related revenue from the reinsured policies, including net investment income from the permanently restricted assets, after satisfying certain related expenses and taxes, inure solely to the benefit of those reinsured policyholders and will not be available to the Company's policyholders.

Investments Group

The Investments Group consists of activities conducted through the Company and its subsidiaries, including NYLIAC, NYL Investments, MCF and NYL Investors. The Retail Annuities business within the Investments Group develops and markets immediate income annuities and deferred income annuities that are issued by the Company and NYLIAC, and fixed and variable deferred annuities that are issued by NYLIAC. The Institutional Annuities business within the Investments Group includes the Company's structured settlement annuities, guaranteed products ("**GP**") (including guaranteed interest contracts ("**GICs**") and other fixed income investment products offered through the Company) and stable value businesses. The Investments Group also includes integrated investment management enterprise with the following businesses: asset management boutiques, retail mutual funds and general account investment management (the management of certain assets of the Company and its affiliates).

Income, Benefits and Expenses

The Company derives its income principally from premiums on life insurance and annuity contracts and net investment income from general account assets. The Company's benefits and expenses consist principally of insurance benefits paid to policyholders and beneficiaries, reserves for future policyholder benefits, and operating expenses, including marketing, administrative and distribution costs. In addition, the Company has historically focused, and expects to continue to focus, on participating life insurance products, which typically pay annual policyholder dividends. As a result, a significant deduction from income is represented, and likely will continue to be represented, by policyholder dividends.

The Company's profitability is primarily derived from spread on mortality and investment income and 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 investment returns and manage credit risk on the investments supporting its products and its ability to control expenses in accordance with its pricing assumptions.

Management's Discussion and Analysis

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 may 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, reserves, and pension and other postretirement benefits. 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 statements.

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. The Company generally takes the view that equities are impaired if they have traded below cost for more than one year (since equities are carried at fair value, an impairment of an equity security has a direct impact to net income, however there is no impact to surplus). 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 is considered temporary, the Company does not recognize impairment when it has the ability and intent to hold until recovery.

Policy Reserves

Reserves for life insurance, annuity, LTC and disability contracts are based on mortality and morbidity 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, morbidity, 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 for all potential claims 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.

Pension and Other Postretirement Benefits

Pursuant to accounting principles related to the Company's pension and other postretirement benefit obligations to employees and agents under its various benefit plans, the Company is required to make assumptions in order to estimate the liabilities and related expense each period. Assumptions that have an impact on pension and other postretirement benefit expenses include the discount rate, the expected long-term rate of return on plan assets and health care cost trends.

Factors considered in developing the expected long-term rate of return on plan assets includes an evaluation of the historical behavior of the broad financial markets, the plan's target asset allocation, and the future expectations for returns for each asset class, modified by input from the plan's investment consultant based on the current economic and financial market conditions. The discount rates used to determine the Company's pension and other post retirement plan obligations are set by matching the plans' cash flows to a hypothetical AA yield curve represented by a series of spot discount rates for each maturity.

RESULTS OF OPERATIONS

The following table illustrates the Company’s results of operations for the years ended December 31, 2016 and 2015 ($ in millions):

	2016	2015	Change $	Change %
Income:				
Premiums	$ 15,441	$ 20,400	$ (4,959)	(24.3)%
Net investment income	6,078	5,968	110	1.8
Other income	542	830	(288)	(34.7)
Total income	22,061	27,198	(5,137)	(18.9)
Benefits and expenses:				
Benefit payments	11,379	11,448	(69)	(0.6)
Additions to policy reserves	4,042	9,348	(5,306)	(56.8)
Net transfers to separate accounts	1,000	120	880	nm
Operating expenses	3,252	3,881	(629)	(16.2)
Total benefits and expenses	19,673	24,797	(5,124)	(20.7)
Gain from operations before dividends and federal income taxes	2,388	2,401	(13)	(0.5)
Dividends to policyholders	1,944	1,923	21	1.1
Gain from operations before federal income taxes	444	478	(34)	(7.1)
Federal income taxes	(163)	327	(490)	nm
Net gain from operations	607	151	456	302.0
Net realized capital losses after taxes and transfers to the interest maintenance reserve	(309)	(303)	(6)	2.0
Net income (loss)	**$ 298**	**$ (152)**	**$ 450**	**nm**

nm = not meaningful

Net Income (Loss)

The Company’s net income (loss), which is net gain from operations plus net realized capital gains (losses) (after-tax and transfers to the interest maintenance reserve (“**IMR**”)), was $298 million for the year ended December 31, 2016, a $450 million increase from the net loss of $152 million reported for the year ended December 31, 2015. The net loss reported for the year ended December 31, 2015 was primarily driven by the initial reduction in net income from the acquisition of the Closed Block Reinsurance of $688 million, which was mainly comprised of an initial net ceding commission incurred and federal income tax expense (see “-Federal Income Taxes”).

Excluding the initial impact of the Closed Block Reinsurance in 2015, the Company's net income of $298 million for the year ended December 31, 2016 decreased $238 million, or 44.4%, from the net income of $536 million for the year ended December 31, 2015. The decrease was primarily driven by lower net gain from operations of $232 million.

Net Gain from Operations

Net gain from operations after dividends and federal income taxes for the year ended December 31, 2016 was $607 million, which represents an increase of $456 million from the $151 million net gain from operations reported for the year ended December 31, 2015.

Excluding the initial impact of the Closed Block Reinsurance in 2015, the Company's net gain from operations after dividends and federal income taxes for the year ended December 31, 2016 of $607 million was $232 million, or 27.7%, lower as compared to the $839 million for the year ended December 31, 2015, and was comprised of the following:

- $302 million decrease in net gain from operations before dividends and federal income taxes mainly driven by an increase in operating expenses (see "-Operating Expenses"), and lower limited partnership distributions (see "-Net Investment Income");
- $145 million higher dividend expense to policyholders;
- $163 million current federal income tax benefit for the year ended December 31, 2016, a change of $215 million from the current federal income tax expense of $52 million for the year ended December 31, 2015 (see "-Federal Income Taxes").

Premium Income

Premiums are generated from sales of life and health insurance and annuities. In addition, sales of GP and Stable Value products, included within Institutional Annuities, with annuity purchase rate guarantees, are counted as premium since there is mortality risk in these products.

The following table shows premium income by business operation for the years ended December 31, 2016 and 2015 ($ in millions):

			Change	
	2016	**2015**	**$**	**%**
Individual Life[1]	$ 7,646	$ 13,315	$ (5,669)	(42.6)%
Direct Operations	1,461	1,389	72	5.2
GMAD	535	526	9	1.7
LTC	281	266	15	5.6
Insurance and Agency Group	**9,923**	**15,496**	**(5,573)**	**(36.0)**
Institutional Annuities:				
GP and Structured Settlements ("**SS**")	1,659	1,321	338	25.6
Stable Value	3,606	3,512	94	2.7
Retail Annuities	253	71	182	nm
Investments Group	**5,518**	**4,904**	**614**	**12.5**
Total	**$ 15,441**	**$ 20,400**	**$ (4,959)**	**(24.3)%**

[1] Premium income for the year ended December 31, 2015 includes $6,212 million related to initial reinsurance premium from the Closed Block Reinsurance.

nm = not meaningful

Insurance and Agency Group premiums for the year ended December 31, 2016 decreased $5,573 million from the same period last year, primarily driven by the initial reinsurance premium related to the Closed Block Reinsurance assumed in the third quarter of 2015.

Excluding the initial reinsurance premium from the Closed Block Reinsurance in 2015, Insurance and Agency Group premiums increased $639 million, or 6.9%, from the same period last year. The increase was primarily driven by higher renewal and first year premiums from Individual Life business.

Premiums from the Investments Group for the year ended December 31, 2016 increased $614 million from the same period last year. The increase in premiums was primarily driven by sales from Retail Annuities' participating annuity products, which were launched in July 2015, and higher sales from GP's single premium and GIC products. The increase in Stable Value was primarily driven by higher sales of Stable Value products and the book value guaranteed separate account products.

Net Investment Income (including amortization of IMR)

Net investment income for the year ended December 31, 2016 was $6,078 million, an increase of $110 million, or 1.8%, from the $5,968 million reported for the year ended December 31, 2015. The growth in net investment income was primarily driven by fixed income investments of $345 million mainly due to an increase in average asset balances, partially offset by a decline in the portfolio yield. The higher average asset balance was driven by the Closed Block Reinsurance as well as strong operating cash flows. Partially offsetting this increase was lower income from equity investments of $231 million primarily driven by a decrease in limited partnership distributions.

Benefit Payments

The Company's benefit payments primarily include death benefits, annuity benefits, accident and health benefits, surrender benefits (including scheduled maturities and withdrawals on GP, primarily GICs, and Stable Value) and interest on policy claims and deposit funds.

The following table shows benefit payments by business operation for the years ended December 31, 2016 and 2015 ($ in millions):

	2016	2015	Change $	Change %
Individual Life	$ 5,313	$ 5,035	$ 278	5.5 %
Direct Operations	858	811	47	5.8
GMAD	303	305	(2)	(0.7)
LTC	92	86	6	7.0
Insurance and Agency Group	**6,566**	**6,237**	**329**	**5.3**
Institutional Annuities:				
GP and SS	2,436	2,625	(189)	(7.2)
Stable Value	2,275	2,476	(201)	(8.1)
Retail Annuities	102	110	(8)	(7.3)
Investments Group	**4,813**	**5,211**	**(398)**	**(7.6)**
Total	**$ 11,379**	**$ 11,448**	**$ (69)**	**(0.6)%**

The increase in the Insurance and Agency Group benefit payments was primarily driven by higher benefit payments related to the Closed Block Reinsurance as 2016 reflects a full year of activity, while 2015 only reflects six months of activity from the initial acquisition date.

The decrease in the Investments Group benefit payments was primarily driven by lower withdrawals from Stable Value products and lower scheduled GIC maturities during 2016.

Additions to Reserves

The following table shows additions to reserves by business operation for the years ended December 31, 2016 and 2015 ($ in millions):

	2016	2015	Change $	Change %
Individual Life[1]	$ 2,805	$ 8,343	$ (5,538)	(66.4)%
LTC	224	207	17	8.2
Direct Operations	170	92	78	84.8
GMAD	29	16	13	81.3
Insurance and Agency Group	**3,228**	**8,658**	**(5,430)**	**(62.7)**
Institutional Annuities:				
GP and SS	373	(94)	467	nm
Stable Value	269	790	(521)	(65.9)
Retail Annuities	172	(6)	178	nm
Investments Group	**814**	**690**	**124**	**18.0**
Total	**$ 4,042**	**$ 9,348**	**$ (5,306)**	**(56.8)%**

[1] Additions to reserves for the year ended December 31, 2015 includes $5,732 million related to the initial impact of the Closed Block Reinsurance.

nm = not meaningful

The decrease in the Insurance and Agency Group additions to reserves was primarily driven by the initial impact of the Closed Block Reinsurance assumed in third quarter of 2015.

Excluding the initial impact of the Closed Block Reinsurance, Insurance and Agency Group additions to reserves increased $302 million, or 10.3%, from the same period last year. The increase was mainly driven by Individual Life, largely reflecting the aging of the insurance inforce including the receipt of renewal premiums, partially offset by the runoff of business reserves from the Closed Block Reinsurance in 2016.

The increase in the Investments Group additions to reserves was primarily driven by higher GIC sales and lower scheduled GIC maturities during 2016, as well as higher sales from Retail Annuities' participating annuity products in 2016. Partially offsetting the increase was lower guaranteed interest account ("**GIA**") premiums, which includes an accounting reclassification of a $237 million GIA contract sold in 2015. This GIA contract was reported as premium income in 2015 but was reclassed in 2016 to a deposit-type contract since it did not contain any mortality risk (the decrease in premiums was offset by a corresponding decrease in reserves).

Net Transfers to Separate Accounts

Net transfers to separate accounts for the year ended December 31, 2016 were $1,000 million, a change of $880 million from the $120 million transferred to separate accounts for the year ended December 31, 2015, primarily due to higher net deposits in 2016.

Operating Expenses

Operating expenses primarily include general insurance expenses, taxes, licenses, fees and commissions. For the year ended December 31, 2016, total operating expenses of $3,117 million reflected a decrease of $690 million, or 18.1%, from the $3,807 million reported for the year ended December 31, 2015. The decrease was primarily driven by the initial impact of the Closed Block Reinsurance assumed during the third quarter of 2015, mainly due to the commission and expense allowance paid on the assumed reinsurance.

Excluding the initial impact of the Closed Block Reinsurance, operating expenses increased $283 million, or 10.0%, from the same period last year. Approximately half of the increase was driven by higher variable expenses, which includes agents commissions and field compensation. The remaining increase was mainly driven by higher general operating expenses (which includes costs associated with transforming the Company's operations).

Dividends to Policyholders

Dividends to policyholders for the years ended December 31, 2016 and 2015 consisted of the following:

			Change	
	2016	**2015**	**$**	**%**
Dividends - Company Policyholders	$ 1,851	$ 1,753	$ 98	5.6 %
Dividends - Closed Block Reinsurance[1]	93	170	(77)	(45.3)
Total	**$ 1,944**	**$ 1,923**	**$ 21**	**1.1%**

[1] Includes $124 million related to the initial impact of the Closed Block Reinsurance. Dividends from the Closed Block Reinsurance are not required to be approved by the Company's Board of Directors.

Dividends to the Company's policyholders are approved by the Board of Directors annually and primarily factor in investment experience (interest earnings, credit loss experience and equity returns), mortality results and expense levels that develop over a period of time.

Federal Income Taxes

The following table reconciles the tax expense calculated at the statutory rate to the tax expense/(benefit) reflected in the Company's results of operations for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015	Change
Pre-tax gain from operations at 35%	**$ 155**	**$ 167**	**$ (12)**
Tax credits[1]	(107)	(129)	22
Dividends from subsidiaries[2]	(106)	(123)	17
Tax exempt income	(61)	(39)	(22)
Amortization of IMR	(53)	21	(74)
Tax basis versus statutory basis reserves adjustment	3	12	(9)
DAC tax	(20)	309	(329)
Non-deductible pension and postretirement costs	3	81	(78)
Excess of book over tax policyholder dividends	33	25	8
Other (including prior period adjustments)	(10)	3	(13)
Total federal income tax (benefit) expense	**$ (163)**	**$ 327**	**$ (490)**

[1] Tax credits result primarily from investments in low income housing and alternative energy.
[2] Dividends from subsidiaries represent after-tax earnings of the subsidiary and are not subject to tax when received by the Company.

The year over year change in federal income taxes of $490 million was primarily driven by higher DAC tax in 2015 as a result of the Closed Block Reinsurance transaction. Under the Internal Revenue Service Code, insurance companies are required to capitalize initial acquisition costs and take the deduction over time ("**DAC tax**"). This is accomplished by applying a tax on 7.7% of premiums, including net considerations on reinsurance transactions. This tax will be recovered over a 10 year period, beginning in 2016.

Also contributing to the year over year change were tax benefits related to expected pension contributions to be included in the Company’s 2016 federal income tax return.

Net Realized Capital Gains (Losses)

The Company reported net realized capital (gains) losses after taxes and transfers to the IMR of $309 million for the year ended December 31, 2016, a decline of $6 million from the $303 million reported in the previous year

The following table represents the net realized capital losses for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015	Change
Derivatives	$ 398	$ (88)	$ 486
Bonds	104	267	(163)
Common stock	56	17	39
Limited partnerships and other invested assets	11	(9)	20
Other[1]	(84)	126	(210)
Total before OTTI and capital gains tax	**485**	**313**	**172**
OTTI	(434)	(401)	(33)
Capital gains tax expense[2]	(110)	(87)	(23)
Net capital losses after-tax and before transfers to the IMR	**(59)**	**(175)**	**116**
Capital gains transferred to the IMR[3]	(250)	(128)	(122)
Net capital losses after-tax	**$ (309)**	**$ (303)**	**$ (6)**

1 Other primarily represents realized foreign exchange (losses) gains on Global Medium Term Note contracts of $(83) million and $118 million for the years ended December 31, 2016 and 2015, respectively. These (losses) gains were substantially offset by realized gains (losses) on currency swaps included in Derivatives.

2 OTTI losses are generally not subject to current tax treatment; however, current year tax includes benefits on current year OTTI on residential mortgage-backed securities and sales of other securities impaired in prior years.

3 Capital gains tax expense transferred to the IMR was $134 million and $65 million for the years ended December 31, 2016 and 2015, respectively.

The increase in gains on derivatives was primarily driven by the termination of certain asset and liability management hedges during the year ended December 31, 2016, which generated realized capital gains of $315 million (the after-tax amount of the gains of $204 million was transferred to the IMR).

The following table shows the distribution of OTTI and the year-over-year change in OTTI by asset type for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015	Change
Limited partnerships and other invested assets	$ (251)	$ (267)	$ 16
Bonds	(176)	(129)	(47)
Common and preferred stock	(7)	(3)	(4)
Other	—	(2)	2
Total OTTI	**$ (434)**	**$ (401)**	**$ (33)**

The increase in OTTI of $33 million was primarily driven by impairments on energy sector bonds, mainly resulting from lower oil and gas prices during the first half of 2016. Overall, OTTI losses in both 2016 and 2015 represent less than 1% of total cash and invested assets.

FINANCIAL POSITION

ASSETS

The following table illustrates the Company's statutory asset position at December 31, 2016 and 2015 ($ in millions):

	2016	2015	Change $	Change %
Invested assets:				
Bonds	$ 93,048	$ 86,178	$ 6,870	8.0 %
Common and preferred stocks	9,900	9,440	460	4.9
Mortgage loans	14,853	14,601	252	1.7
Policy loans	10,596	10,410	186	1.8
Limited partnerships and other invested assets	8,810	9,486	(676)	(7.1)
Cash, cash equivalents and short-term investments	2,989	4,392	(1,403)	(31.9)
Derivatives	806	1,064	(258)	(24.2)
Real estate	1,586	1,426	160	11.2
Other investments	197	219	(22)	(10.0)
Total cash and invested assets	142,785	137,216	5,569	4.1
Other than cash and invested assets:				
Deferred and uncollected premiums	1,843	1,836	7	0.4
Investment income due and accrued	1,375	1,250	125	10.0
Funds held by reinsurer - affiliated	4,154	4,255	(101)	(2.4)
Other assets	6,808	6,670	138	2.1
Total other than cash and invested assets	14,180	14,011	169	1.2
General account assets	156,965	151,227	5,738	3.8
Separate accounts assets	13,797	12,327	1,470	11.9
Total assets	**$ 170,762**	**$ 163,554**	**$ 7,208**	**4.4%**

The Company's total assets at December 31, 2016 increased $7,208 million, or 4.4%, over December 31, 2015, primarily driven by higher cash and invested assets of $5,569 million, mainly driven by the investment of operating cashflow and increase in value of the Company's affiliated entities. Also adding to the increase were higher separate accounts assets of $1,470 million, mainly due to net contributions and investment income earned during the year.

Investment Portfolio

At December 31, 2016 and 2015, the Company's general account investment portfolio totaled $142,785 million and $137,216 million, respectively. Invested assets increased in 2016 primarily as a result of the investment of operating cashflow. Invested assets are managed to support the liabilities of the Company's lines of business. The Company emphasizes asset/liability management and liquidity management across all product lines. Quality and diversification are essential building blocks in portfolio construction. The investment portfolios are specifically tailored to fit the unique interest rate sensitivities and cash flow characteristics associated with each of the product segments. In addition, the Company takes a comprehensive enterprise view, taking measures to mitigate overall risk exposures at the corporate level.

Investment Risk Management

The Company 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.

The Company actively manages and monitors its credit risk exposure. The Company, through NYL Investors and other indirect asset management subsidiaries, manages credit risk on an individual issuer and sector basis as well as for the aggregate corporate portfolio in accordance with the Company'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 and guidelines are 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.

The Company actively monitors and manages its commercial mortgage loan portfolio. Substantially all of the commercial mortgage loan portfolio is serviced directly by the Company's subsidiary, NYL Investors. All aspects of loan origination and loan management are performed and/or reviewed by NYL Investors personnel, including lease analysis, economic and financial reviews, tenant analysis, and oversight of delinquency and bankruptcy proceedings. Properties securing loans are generally reinspected and revalued on a regularly scheduled basis. Problem or potential problem loans are reinspected and revalued as often as required.

If any mortgage loan analysis or other information that is obtained indicates a potential problem (likelihood of the borrower not being able to comply with the present loan repayment terms), the loan will be placed on an internal watchlist and routinely monitored. Among the criteria that would indicate a potential problem are: borrower bankruptcies; major tenant bankruptcies; loan relief/restructuring requests; delinquent tax payments; late payments; higher loan to value ratios; low debt service coverage ratios; and vacancy levels. No single factor necessarily requires a loan to be included on the watchlist, as such determination is subject to judgment as to whether circumstances call for inclusion.

Bonds

The carrying value of the Company's bond portfolio totaled $93,048 million and $86,178 million at December 31, 2016 and 2015, respectively. Bonds represent 65.2% and 62.8% of total cash and invested assets at December 31, 2016 and 2015, respectively, and consist of publicly traded and private placement debt securities. At December 31, 2016 and 2015, publicly traded bonds comprised 63.9% and 63.0% of the total bond portfolio, respectively.

It is the Company's objective to maintain a high quality, well diversified, bond portfolio. The bond portfolio consists primarily of investment-grade corporate bonds, asset-backed and mortgage-backed securities and U.S. Treasury securities and agency obligations. As of December 31, 2016 and 2015, 93.0% and 92.0% of the bond portfolio, respectively, was invested in NAIC 1 and NAIC 2 or Moody's Aaa, Aa, A or Baa investment grade securities or S&P AAA, AA, A or BBB investment grade securities.

An analysis of the credit quality, as determined by NAIC Designation, of the total bond portfolio and, separately, the public and private placement bond portfolios, at December 31, 2016 and 2015, is set forth in the following tables ($ in millions):

Total Bonds – Public and Private by NAIC Designation

		2016			2015		
NAIC Designation	**Approximate Rating Agency Equivalent Designation**	**Carrying Value**	**Estimated Fair Value**	**% of Total Carrying Value**	**Carrying Value**	**Estimated Fair Value**	**% of Total Carrying Value**
1	AAA to A–	$ 59,669	$ 63,391	64.1 %	$ 54,163	$ 58,393	62.8 %
2	BBB+ to BBB–	26,867	28,091	28.9	25,121	25,747	29.2
	Investment grade	86,536	91,482	**93.0**	79,284	84,140	92.0
3	BB+ to BB–	3,824	3,903	4.1	4,288	4,150	5.0
4	B+ to B–	2,279	2,318	2.4	2,212	2,103	2.5
5	CCC+ to CCC–	343	364	0.4	337	300	0.4
6	CC to D	66	92	0.1	57	78	0.1
	Below investment grade	6,512	6,677	**7.0**	6,894	6,631	8.0
	Total	**$ 93,048**	**$ 98,159**	**100.0%**	**$ 86,178**	**$ 90,771**	**100.0%**

Below investment grade bonds were $6,512 million and $6,894 million, representing 7% and 8% of total bond holdings at December 31, 2016 and 2015, respectively.. At December 31, 2016 and 2015, the portfolio of below investment grade bonds was comprised of 75.2% and 77.4%, respectively, of issues that were acquired as below investment grade as part of the Company's high yield investment objective to enhance overall portfolio yield and income. The remaining 24.8% and 22.6%, respectively, of the portfolio was comprised of issues that were acquired as investment grade but have since been downgraded (i.e., fallen angels). Such fallen angels totaled $1,613 million and $1,559 million at December 31, 2016 and 2015, 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. The Company 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 as performing, OTTI and temporarily impaired greater than 20% at December 31, 2016 and 2015. OTTI bonds are defined as bonds for which OTTI write-downs have been taken. Temporarily impaired greater than 20% is defined as bonds for which estimated fair value is below carrying value by more than 20% as of the balance sheet date, but which continue to meet all their contractual obligations.

	2016			2015		
	Carrying Value	**Estimated Fair Value**	**% of Total Carrying Value**	**Carrying Value**	**Estimated Fair Value**	**% of Total Carrying Value**
			($ in millions)			
Performing	$ 92,114	$ 97,189	99.0%	$ 84,462	$ 89,374	98.0 %
OTTI	775	862	0.8	574	613	0.7
Temporarily impaired greater than 20%	159	108	0.2	1,142	784	1.3
Total	**$ 93,048**	**$ 98,159**	**100.0 %**	**$ 86,178**	**$ 90,771**	**100.0%**

The Company's net unrealized gains on bonds of $5,102 million and $4,592 million at December 31, 2016 and 2015, respectively, are not reflected in the Company's Statutory Financial Statements since these bonds are held at amortized cost under NAIC SAP. Net unrealized gains are comprised of gross unrealized gains of $6,021 million and $5,820 million at December 31, 2016 and 2015, respectively, which are partially offset by gross unrealized losses totaling $919 million and $1,228 million at December 31, 2016 and 2015, respectively.

The following table presents the Company's temporarily impaired greater than 20% bonds, stated in the previous table, by length of time that the individual securities have been in a continuous unrealized loss position of 20% or more at December 31, 2016 and 2015 ($ in millions):

	2016			2015		
	Carrying Value	Estimated Fair Value	Unrealized Loss	Carrying Value	Estimated Fair Value	Unrealized Loss
Less than 6 months	$ 119	$ 92	$ 27	$ 1,031	$ 741	$ 290
Between 6-9 months	—	—	—	30	16	14
Between 9-12 months	2	1	1	5	2	3
More than 12 months	38	15	23	76	25	51
Total	**$ 159**	**$ 108**	**$ 51**	**$ 1,142**	**$ 784**	**$ 358**

During 2016 and 2015, the Company recognized $176 million and $129 million, respectively, in OTTI on bonds.

Under statutory accounting practices, bonds are carried at amortized cost, or the lower of amortized cost or fair value, if in default (as defined by an NAIC Designation of 6). Unrealized losses were $51 million and $358 million on temporarily impaired bonds with losses greater than 20% at December 31, 2016 and 2015, respectively, of which $1 million and $2 million were reported as unrealized losses and a reduction in statutory surplus as of December 31, 2016 and 2015, respectively. The decrease in unrealized losses is primarily due to a decline in market prices on corporate bonds in the energy sector resulting from declining oil prices, as well as an overall increase in interest rates.

Common and Preferred Stocks

The carrying value of the Company's common and preferred stock portfolio at December 31, 2016 and 2015 consists of the following (in millions):

	2016	2015
Common stock of insurance subsidiaries	$ 8,829	$ 8,237
Common and preferred stock	1,071	1,203
Total	**$ 9,900**	**$ 9,440**

The total carrying value of common stock of the Company's insurance subsidiaries at December 31, 2016 was $8,829 million, an increase of $592 million from the $8,237 million at December 31, 2015. The increase was primarily due to positive operating results of NYLIAC.

The total carrying value of the Company's unaffiliated equity portfolio at December 31, 2016 was $1,071 million, comprised of $905 million in direct investments in common stocks, $110 million in mutual funds and $56 million in preferred stock. The carrying value decreased by $132 million from the $1,203 million reported at December 31, 2015 primarily due to net dispositions of unaffiliated common stock totaling $127 million.

Mortgage Loans

The Company underwrites commercial mortgages on general purpose income producing properties including office buildings, retail facilities, apartments, industrial and hotel properties. Geographic and property type diversification is also considered in analyzing investment opportunities, as well as property valuation and cash flow.

The mortgage loan portfolio, including both commercial and residential loans, was $14,853 million (commercial $14,845 million; residential $8 million) and $14,601 million (commercial $14,589 million; residential $12 million) at December 31, 2016 and 2015, respectively. The mortgage loan portfolio comprised 10.4% and 10.6%, respectively, of the Company's total invested assets at December 31, 2016 and 2015.

At December 31, 2016, 38.2% of the portfolio was secured by properties located in the states of California, New York and New Jersey. At December 31, 2016 and 2015, no single borrower represented more than 6.1% and 6.3%, respectively, of the total aggregate principal balance of the commercial loan.

Mortgage loans on real estate are carried at unpaid principal balances, net of discounts/premiums and valuation allowances, and are secured. The Company evaluates its mortgage loan portfolio for impairments quarterly. Specific valuation allowances are established for the excess carrying value of the mortgage loan over its estimated fair value, when it is probable that based on current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Specific valuation allowances on individual mortgage loans are based on the fair value of the collateral. If impairment is other than temporary, a direct write-down is recognized as a realized loss and a new cost basis, which is equal to the fair value of the collateral for the individual mortgage loan, is established. The new cost basis will not be changed for subsequent recoveries in value. Mortgage loans for which foreclosure is probable are considered other-than-temporarily impaired.

Losses on mortgage loans are a result of foreclosures, sales of loans and writedowns in anticipation of losses. There were no losses in 2016 and 2015. At December 31, 2016, there was one residential mortgage loan with a carrying value of less than $1 million and one commercial mortgage loan with a carrying value of $39 million that were in the process of foreclosure.

Limited Partnerships and Other Invested Assets

At December 31, 2016 and 2015, the Company's composition of limited partnership and other miscellaneous invested assets by type were as follows ($ in millions):

	2016		2015	
	Carrying Value	**% of Total**	**Carrying Value**	**% of Total**
Limited Partnerships:				
Leveraged buyout	$ 4,200	47.7 %	$ 3,906	41.2 %
Real estate	1,058	12.0	893	9.4
Hedge funds	322	3.7	509	5.4
Mezzanine	562	6.4	551	5.8
Low income housing tax credit funds	293	3.3	351	3.7
Wind energy	184	2.1	235	2.5
Power plants	59	0.7	78	0.8
Other	427	4.8	352	3.7
Subtotal	**7,105**	**80.7**	**6,875**	**72.5**
Other invested assets:				
Loans to affiliates	119	1.3	727	7.7
Affiliated non-insurance subsidiaries	1,484	16.8	1,741	18.3
Other	102	1.2	143	1.5
Subtotal	**1,705**	**19.3**	**2,611**	**27.5**
Total	**$ 8,810**	**100.0%**	**$ 9,486**	**100.0%**

Limited partnerships and limited liability companies primarily consist of limited partnership interests in leveraged buyout funds, real estate, and other equity investments. The limited partnership portfolio is well seasoned and diversified. The Company evaluates its limited partnerships and limited liability companies for OTTI. An investment is considered other-than-temporarily impaired if it is probable, based on facts and circumstances, that the Company will be unable to recover the cost of the investment. If an investment is deemed to be other-than-temporarily impaired, the cost basis of the investment is written down to fair value and the corresponding unrealized loss in surplus is realized in net income. During 2016 and 2015, the Company recognized $251 million and $267 million, respectively, in impairment write-downs on its investments in limited partnerships and limited liability companies.

Affiliated non-insurance subsidiaries consists of the Company's LLC investments in NYL Investments, NYL Investors, MCF, NYLE and NYLIFE LLC. The Company recorded net unrealized losses of $264 million in 2016 and net unrealized gains of $131 million in 2015.

Loans to affiliates includes amounts loaned from the Company to Cordius CIG, a Société d'Investissement à Capital Variable (a "SICAV"), under a term loan agreement whereby the Company loaned to Cordius an amount of €100 million. A SICAV is an open-ended collective investment product common in Western Europe and is similar to an open-ended mutual fund in the U.S. Cordius paid down €50 million on the loan during 2016. During 2016 and 2015, the Company recorded interest payments on the loan totaling$1 million and less than $1 million, respectively, which were included in net investment income.

Loans to affiliates also include amounts loaned from the Company to NYL Investors, a wholly owned subsidiary of the Company, under three separate term loan agreements whereby the Company loaned NYL Investors principal amounts of $16 million, $40 million and $10 million, respectively. The $40 million and $10 million loans were issued in 2016. During 2016 and 2015, the Company recorded interest income on the loans totaling $1 million and $2 million, respectively, which were included in net investment income.

Cash, Cash Equivalents and Short-Term Investments

Cash (and cash equivalents) includes cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at the date of purchase and are carried at amortized cost, which approximates fair value. Short-term investments consist of securities that have remaining maturities of greater than three months and less than or equal to twelve months when purchased and are carried at amortized cost, which approximates fair value. At December 31, 2016, cash and short term investments totaled $2,989 million, a decrease of $1,403 million, from the $4,392 million reported at December 31, 2015. The increase was primarily due to higher investments in fixed income and equity securities.

Derivatives

The Company's derivative assets at December 31, 2016 were $806 million, a decrease of $258 million, or 24.2%, from the $1,064 million reported at December 31, 2015. While derivatives are reported on a gross basis by each individual position, it is more meaningful to discuss the change in the net derivative positions. For a discussion on the change in the Company's net derivative positions, see "—Liabilities—Derivatives".

Real Estate

At December 31, 2016 and 2015, the carrying value of the Company's real estate portfolio was as follows (in millions):

	2016	2015
Investment	$ 1,325	$ 1,111
Properties for Company use	236	280
Acquired through foreclosure	25	35
Total real estate	**$ 1,586**	**$ 1,426**

The estimated fair value of the real estate portfolio was $2,759 million and $2,462 million at December 31, 2016 and 2015, respectively.

In addition to the above, the Company owns real estate in certain LLC structures, which are included within Limited partnerships and other invested assets of $811 million and $683 million for the years ended December 31, 2016 and

2015, respectively. The estimaed fair value of these properties was $1,409 million and $1,189 million at December 31, 2016 and 2015, respectively.

NYL Investors manages the real estate investment portfolio. Each property in the portfolio is typically reappraised internally, annually, to determine fair value and assist in portfolio asset management.

Separate Accounts Assets

The Company has established both non-guaranteed and guaranteed separate accounts with varying investment objectives which are segregated from the Company's general account and are maintained for the benefit of separate account contractholders. Separate accounts assets are primarily invested in bonds, common stocks, limited partnerships and hedge funds.

At December 31, 2016, the Company's separate accounts assets increased $1,470 million, or 11.9%, from 2015 and consisted of the following (in millions):

Assets, December 31, 2015	**$**	**12,327**
Net contributions for the period		1,124
Net investment income		302
Market value depreciation		(20)
Net realized gains		114
Change in amounts due to borrowed funds		(31)
Amounts due to brokers for unsettled trades		(19)
Other		—
Total increase	**$**	**1,470**
Assets, December 31, 2016	**$**	**13,797**

LIABILITIES

The following table illustrates the Company's statutory liabilities position at December 31, 2016 and 2015 ($ in millions):

			Change	
	2016	2015	$	%
Policy reserves	$ 102,601	$ 98,772	$ 3,829	3.9 %
Deposit funds	16,435	15,384	1,051	6.8
Dividends payable to policyholders	1,885	1,789	96	5.4
Policy claims	855	797	58	7.3
Borrowed money	503	503	—	—
Amounts payable under security lending agreements	653	578	75	13.0
Derivatives	539	459	80	17.4
Funds held under coinsurance	4,407	4,598	(191)	(4.2)
Interest maintenance reserve	724	593	131	22.1
Asset valuation reserve	2,175	2,260	(85)	(3.8)
Other liabilities	6,086	6,002	84	1.4
Separate accounts liabilities	13,791	12,323	1,468	11.9
Total liabilities	**$ 150,654**	**$ 144,058**	**$ 6,596**	**4.6%**

Policy Reserves

At December 31, 2016, total policy reserves increased $3,829 million, or 3.9%, from December 31, 2015, primarily driven by the aging of the insurance inforce including the receipt of renewal premium on life insurance.

Deposit Funds

Deposit fund contracts are not subject to any mortality or morbidity risk and consist primarily of funding contracts, benefit payments deposited into continued interest accounts, dividends left on deposit and fixed period annuity deposits. At December 31, 2016, total deposit funds were $1,051 million, or 6.8%, higher than the amount reported at December 31, 2015. The increase from last year was primarily due to positive net cash flow on GICs.

Dividends Payable to Policyholders

The 2016 liability represents dividends to be paid to policyholders in 2017, and is primarily based on the dividend scale approved by the Board of Directors in November 2016 (see "Results of Operations—Dividends to Policyholders"). At December 31, 2016, the liability for dividends to policyholders was $96 million, or 5.4%, higher than the amount reported for the year ended December 31, 2015. The increase is mainly due to the continuation of the Company's dividend scale approved by the Board in November 2016.

Borrowed Money

At both December 31, 2016 and 2015, the carrying value of borrowed money consisted of a loan payable to New York Life Capital Corporation ("**NYLCC**") of $503 million. See "Financing—New York Life Capital Corporation" for a discussion of the loan payable to NYLCC.

Derivatives

Derivative liabilities increased $80 million, or 17.4%, from 2015, but to better understand the changes in derivatives, it is necessary to look at the changes in the derivative assets and liabilities together. At December 31, 2016 the net derivative position was an asset of $267 million, a $338 million decrease from the $605 million net asset position reported for the year ended December 31, 2015. The decrease is primarily due to the unwind of the structured settlements interest rate swaps during 2016.

Funds Held under Coinsurance

Funds held under coinsurance primarily represent balances payable related to certain reinsurance assumed contracts that were partially retroceded. The balances are determined based on the percent of the liabilities retroceded, including certain insurance related payables and receivables as stipulated by the reinsurance agreements. At December 31, 2016, funds held under coinsurance were $4,407 million.

Asset Valuation Reserve

The asset valuation reserve (“**AVR**”) is an investment reserve established to provide for default risk on fixed income assets and market value fluctuation on equity-type investments. The AVR decreased $85 million, or 3.8%, due to a $177 million decrease to the equity component (primarily other invested assets and real estate) as required under the NAIC's AVR formula. The decrease was partially offset by an increase to the default component of $92 million (primarily bonds and mortgage loans).

Other Liabilities

The Company’s other liabilities at December 31, 2016 increased $84 million from the amount reported at December 31, 2015 and primarily includes general expenses due and unpaid, unfunded pension and postretirement obligations for employees and agents, amounts withheld by the Company and collateral supporting derivatives.

Separate Accounts Liabilities

At December 31, 2016, the Company’s separate accounts liabilities increased $1,468 million, or 11.9%, from the amount reported at December 31, 2015. This increase was primarily attributable to an increase in reserves as a result of the change in assets (See "—Assets—Separate Accounts Assets").

STATUTORY SURPLUS AND AVR

Statutory surplus was $20,108 million at December 31, 2016, an increase of $612 million, or 3.1%, from the $19,496 million reported at December 31, 2015. The main drivers of the change in the Company's statutory surplus and AVR are presented in the following table (in millions):

Surplus and AVR

		2016
Beginning surplus	$	19,496
Net income		298
Net unrealized capital gains[1]		286
Change in deferred taxes		243
Change in AVR		85
Change in nonadmitted assets[2]		(73)
Pension and postretirement impacts		(218)
Other		(9)
Ending surplus		**20,108**
AVR		2,175
Surplus and AVR[3]	**$**	**22,283**

[1] Excludes deferred capital gains tax benefit on net unrealized gains of $14 million reclassified to "Change in deferred taxes."

[2] Excludes the decrease in nonadmitted deferred income taxes of $100 million reclassified to "Change in deferred taxes."

[3] Consolidated statutory surplus and AVR, which includes the AVR of New York Life's wholly owned U.S. insurance subsidiaries (NYLIAC and NYLAZ), totaled $23,336 million at December 31, 2016.

The Company's net income accounted for $298 million of the change in surplus during the year ended December 31, 2016 (see "-Results of Operations-For the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015-Net Income (Loss)"). Other items impacting the Company's 2016 surplus position included the following:

Net Unrealized Capital Gains

Net unrealized capital gains resulted in an increase in surplus of $286 million at December 31, 2016. The increase was primarily due to:

- $327 million of unrealized gains on affiliated entities that are accounted for under the equity method primarily attributable to undistributed earnings and other changes in surplus;

- Net unrealized gains on limited partnerships of $147 million primarily resulting from undistributed earnings on limited partnerships;

- Net unrealized loss on bonds of $148 million primarily resulting from foreign exchange losses due to the strengthening of the U.S. dollar against various foreign currencies;

- Derivative losses of $44 million primarily due to the reversal of prior years unrealized gains as a result of the termination of certain asset and liability management hedges, partially offset by currency swaps hedging foreign denominated bonds.

Change in Deferred Taxes

The following table details the components of the change in deferred taxes at December 31, 2016 (in millions):

	2016
Deferred income tax benefit on operating results	$ 129
Deferred capital gains tax benefit on change in net unrealized capital gains	14
Subtotal	**143**
Decrease in deferred income taxes nonadmitted[1]	100
Total change in deferred taxes	**$ 243**

[1] Primarily due to an increase in deferred tax benefits expected to be realized within three years on limited partnerships, expected pension contributions and dividends payable.

Change in AVR

The AVR decreased $85 million due to a $177 million decrease to the equity component (primarily other invested assets and real estate) partially offset by a $92 million increase to the default component (primarily bonds and mortgage loans) as required under the NAIC's AVR formula.

Change in Nonadmitted Assets

Certain assets are not allowed as admitted assets under NAIC SAP. Generally these are assets with economic value, but which cannot be readily used to pay policyholder obligations. A net increase in nonadmitted assets during 2016 resulted in a decrease to surplus of $73 million during the year ended December 31, 2016, primarily due to the higher fixed asset balances.

Pension and Postretirement Impacts

The calculation of pension and other postretirement benefits obligations requires management to select demographic and economic assumptions that affect the reported amounts of assets and liabilities at year end. Assumptions include, but are not limited to, interest rates, return on plan assets, mortality, withdrawal and retirement rates, and healthcare cost trend. The selected actuarial assumptions comply with the NAIC guidance, which requires the Company to use its best estimate for each assumption, and are reviewed regularly for reasonableness, comparing assumed results to actual plan experience with adjustments made when necessary. The Company uses a December 31st measurement date for these plans, as required.

Pension and postretirement related impacts to surplus of $218 million are primarily a result of a decrease in the discount rate used to measure plan liabilities, partially offset by favorable demographic and claims experience.The following table details the components of the pension and postretirement related impacts (in millions):

	December 31, 2016
Decrease in discount rate (from 4.65% to 4.39%)	$ (331)
Asset returns (actual return of 5.6% compared to 7.5% assumption)	(112)
Favorable demographic and claims experience	205
Other	20
Total	**$ (218)**

LIQUIDITY SOURCES AND REQUIREMENTS

Liquidity Sources

New York Life's principal cash inflows from its insurance activities are derived from life insurance premiums, annuity considerations, GICs and deposit funds. New York Life's principal cash inflows from investments 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 New York Life from liquid assets and other funding sources at the end of the specified periods (in millions). Liquid assets include cash and cash equivalents, short-term investments and publicly traded securities, excluding assets that are pledged or otherwise committed. Other funding sources includes the available capacity at short-term borrowing facilities.

The Company's Available Liquidity at Market Value

	December 31, 2016	December 31, 2015
Cash and short-term investments:		
Cash and cash equivalents	$ 2,718	$ 3,960
Short-term investments	467	555
Less: securities lending and other short-term liabilities	(1,559)	(1,228)
Net cash and short-term investments	**1,626**	**3,287**
Liquid bonds:		
U.S. government and agency bonds	10,574	9,294
Public corporate investment-grade bonds & collateralized mortgage obligations ("CMOs")[1]	46,232	42,529
Liquid bonds	**56,806**	**51,823**
Equities:		
Public equities portfolio	929	1,076
Total liquid assets	**59,361**	**56,186**
Other funding sources:		
Bank facility/commercial paper capacity	1,997	1,497
Federal Home Loan Bank available capacity[2]	5,606	5,798
Total other funding sources	**7,603**	**7,295**
Total available liquidity	**$ 66,964**	**$ 63,481**

[1] Includes all public corporate investment-grade bonds and CMOs, which are stated at fair value.

[2] Available capacity represents 5% of the Company's total admitted assets, less secured borrowing. At December 31, 2016, the Company's borrowing capacity with the Federal Home Loan Bank was $7,885 million, of which $2,279 million had been used.

The Company's U.S. insurance subsidiaries (NYLIAC and NYLAZ) are subject to certain insurance department regulatory restrictions as to the payment of dividends to the Company. In general, a dividend may be paid without prior approval from the domiciliary state insurance department provided that the subsidiary's statutory earned surplus is positive. In addition, dividends paid in any twelve month period cannot exceed the greater of (1) 10% of the subsidiary's surplus, or (2) the subsidiary's net gain from operations, each based on the preceding December 31st statutory financial statements, without regulatory approval. These restrictions pose no short-term or long-term liquidity concerns for the Company, as it does not rely on subsidiary dividends as a significant source of liquidity.

Liquidity Uses

The Company's principal cash outflows primarily relate to the payment of liabilities associated with its various life insurance, annuity and group pension products, GICs and funding agreements, operating expenses and income taxes. Liabilities arising from the Company's insurance activities primarily relate to benefit payments, policy surrenders, withdrawals from GICs and maturity of funding agreements, and loans and dividends to policyholders.

A primary liquidity concern with respect to life insurance and annuity products is the risk of early policyholder and contractholder withdrawals. The Company includes provisions in certain of its contracts that are designed to limit withdrawals from general account institutional pension products (group annuities, GICs and certain deposit fund liabilities) sold to employee benefit plan sponsors. Such provisions include surrender charges, market value adjustments and prohibitions or restrictions on withdrawals. The Company closely monitors its liquidity requirements in order to match cash inflows with expected cash outflows, and employs an asset/liability management approach tailored to the specific requirements of each product line based upon the return objectives, risk tolerance, liquidity, tax and regulatory requirements of the underlying products. It also regularly conducts liquidity stress tests and monitors early warning indicators of potential liquidity issues.

The Company is committed to maintaining adequate capitalization for its insurance and non-insurance subsidiaries to fund growth opportunities and support new products, and, with respect to its U.S. insurance subsidiaries, to maintain targeted RBC levels. In addition, the Company may make loans to its affiliates to provide additional funds to meet the business needs of these entities. The Company made capital contributions (net of returns of capital) of $8 million and $16 million to its non-insurance subsidiaries during the years ended December 31, 2016 and 2015, respectively.

The following table summarizes the characteristics of the Company's annuity contract reserves and deposit fund liabilities in terms of contractholders' ability to withdraw funds for the indicated periods ($ in millions):

The Company's Available Liquidity at Market Value

	December 31,			
	2016		2015	
	Amount	% of Total	Amount	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 14,470	27 %	$ 13,446	27 %
At fair value	8,946	17	7,884	16
Total with market value adjustment or at fair value	23,416	44	21,330	43
Not subject to discretionary withdrawal provisions	26,811	51	25,697	52
At book value without adjustment	2,621	5	2,448	5
Total annuity reserves and deposit fund liabilities	**$ 52,848**	**100%**	**$ 49,475**	**100%**

At December 31, 2016, of the total direct life, accident and health and annuity reserves of $93,089 million and deposit fund liabilities of $15,676 million, the total amounts related to policies and deposits that have surrender privileges were $72,881 million and $1,866 million, respectively. Of these reserves, the amounts redeemable for cash to policyholders and depositors at December 31, 2016 were $70,831 million and $1,866 million, respectively.

At December 31, 2015, of the total direct life, accident and health and annuity reserves of $88,932 million and deposit fund liabilities of $14,597 million, the total amounts related to policies and deposits that have surrender privileges were $69,627 million and $1,666 million, respectively. Of these reserves, the amounts redeemable for cash to policyholders and depositors at December 31, 2015 were $67,569 million and $1,666 million, respectively.

Individual life insurance policies, other than term life insurance policies, generally increase in cash values over their lives. Policyholders have the right to borrow from the Company an amount generally up to the cash value of their policies at any time. As of December 31, 2016 and 2015, the Company had $58,878 million and $56,199 million, respectively, in cash values with respect to policies for which policyholders had rights to take policy loans. The majority of cash values eligible for policy loans are at variable interest rates, which are reset annually on the policy anniversary.

Cash Flows

Net cash provided from operating activities for the years ended December 31, 2016 and 2015 was $4,360 million and $4,989 million, respectively.

Net cash used in investing activities was $6,670 million and $2,876 million for the years ended December 31, 2016 and 2015, respectively. In 2016 and 2015, the Company used the cash flow generated by its operations to invest primarily in fixed income securities.

Net cash from financing activities and miscellaneous sources was $907 million and $939 million for the years ended December 31, 2016 and 2015, respectively. The net cash from financing activities and miscellaneous resources during the year ended December 31, 2016 was primarily associated with an increase in deposit funds of $999 million mainly resulting from higher net deposits on funding agreements. The net cash from financing activities and miscellaneous resources during the year ended December 31, 2015 was primarily associated with an increase in deposit funds of $520 million associated with funding agreements resulting from higher net deposits and other cash provided from miscellaneous sources.

FINANCING

New York Life Capital Corporation

NYLCC is a wholly owned indirect subsidiary of the Company and serves as a conduit for the Company to the credit markets and is authorized to issue up to $2.5 billion of commercial paper to institutional investors. The proceeds are loaned to the Company or its subsidiaries for investment purposes or to meet short-term liquidity needs. By reinvesting the proceeds, the Company earns a spread above the cost of borrowing. At both December 31, 2016 and 2015, the Company had a loan payable to NYLCC of $503 million.

Effective April 13, 2016, the Company and NYLCC entered into a five-year $1.25 billion revolving credit facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility expires April 13, 2021. The Company and NYLCC are borrowers under the Credit Facility. The Credit Facility replaced a three-year $500 million revolving credit facility, effective June 28, 2013 and a five-year $500 million revolving credit facility, effective June 28, 2013 that the Company entered into with a syndicate of lenders, both of which were terminated on April 13, 2016. The Company and NYLCC are borrowers under each facility.

Federal Home Loan Bank of New York

The Company is a member of the Federal Home Loan Bank of New York ("**FHLB of NY**") and began issuing funding agreements to the FHLB of NY in exchange for cash. The proceeds are used for general business purposes. The funding agreements are issued through the general account and are included in the liability for deposit funds on the accompanying Statutory Statements of Financial Position. When a funding agreement is issued, the Company is required to post collateral in the form of eligible securities including mortgage-backed, government and agency debt instruments for each of the advances received. Upon any event of default by the Company, the FHLB of NY's recovery on the collateral is limited to the amount of the Company's liability to the FHLB of NY.

The following table summarizes the details of the Company's funding agreements to the FHLB of NY at December 31, 2016 and 2015 (in millions):

	2016	2015
Funding agreement liability	$ 2,279	$ 1,802
Fair value of collateral pledged to the FHLB of NY	$ 3,016	$ 2,493
Investment in FHLB of NY stock	$ 143	$ 119

The Company had posted additional capital of $737 million and $691 million at December 31, 2016 and 2015, respectively, to allow for additional funding through the FHLB of NY if the need arose.

Surplus Notes

The following table summarizes the surplus notes issued and outstanding as of December 31, 2016 ($ in millions):

Issue Date	Principal Amount	Carrying Value	Interest Paid	Cumulative Interest	Interest Rate	Maturity Date
10/08/2009	$ 1,000	$ 998	$ 67	$ 479	6.75%	11/15/2039
05/05/2003	1,000	995	59	794	5.88%	05/15/2033
Total	$ 2,000	$ 1,993	$ 126	$ 1,273		

The 2009 Notes and the 2003 Notes (collectively, the **"Notes"**) were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by Citibank, as registrar/paying agent. Interest on the Notes is paid semi-annually on May 15th and November 15th of each year.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims against the Company. Under New York State Insurance Law, the Notes are not part of the legal liabilities of the Company. Each payment of interest or principal may be made only with the prior approval of the Superintendent of Financial Services of the State of New York (**"Superintendent"**) and only out of surplus funds, which the Superintendent determines to be available for such payments under New York State Insurance Law. Provided that approval is granted by the Superintendent, the Notes may be redeemed at the option of the Company at any time at the "make-whole" redemption price equal to the greater of: (1) the principal amount of the Notes to be redeemed, or (2) the sum of the present values of the remaining scheduled interest and principal payments on the notes to be redeemed, excluding accrued interest as of the date on which the Notes are to be redeemed, discounted on a semi-annual basis at an adjusted treasury rate plus 20 basis points for the 2003 Notes and 40 basis points for the 2009 Notes, respectively, plus in each case, the accrued interest on the notes to be redeemed to the redemption date.

COMMITMENTS AND CONTINGENCIES

The Company, as lessee, enters into various operating lease agreements primarily associated with real property (including leases of office spaces) and data processing and other equipment. The approximate future minimum rental payments required under these operating leases was $887 million at December 31, 2016.

Unfunded commitments on limited partnerships, limited liability corporations and other invested assets amounted to $3,865 million at December 31, 2016. Included in the total unfunded commitments are $45 million related to commitments on low-income housing tax credit investments, which have been recorded in limited partnerships and other invested assets with a corresponding liability through other liabilities. Contractual commitments to extend credit under commercial mortgage loan agreements totaled $558 million at December 31, 2016, at both fixed and variable rates of interest. These commitments are diversified by property type and geographic location. At December 31, 2016, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to $434 million.

OFF-BALANCE SHEET ARRANGEMENTS

All liabilities that are required to be accrued under statutory accounting practices have been recognized on the balance sheet; however, the Company has entered into various arrangements not required to be reflected on its balance sheet and that are not expected to have a material current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. The Company's off-balance sheet arrangements are limited to guarantees.

The discussion below provides further background supporting the exclusion of these arrangements from the balance sheet.

Guarantees

In accordance with the revision to Statutory Statements of Accounting Principles No. 5 *"Liabilities, Contingencies and Impairments of Assets,"* at the inception of a guarantee (except unlimited guarantees and guarantees made to or on behalf of wholly owned subsidiaries), the Company recognizes an initial liability at fair value for the obligations it has undertaken, regardless of the probability of performance under the guarantee. This includes guarantees made on behalf of affiliates other than wholly owned subsidiaries unless the guarantee is deemed unlimited. At December 31, 2016, the Company did not record a liability related to such guarantees.

Liens

Under custody and other agreements with the Company, several commercial banks have customary security interests or liens on certain assets of the Company to secure potential overdrafts and other liabilities of the Company that may arise under these agreements in the ordinary course. The Company pledges collateral to the FHLB of New York to secure its obligations to such bank under various funding agreements (see "—Financing—Federal Home Loan Bank of New York").

OUTLOOK

The Company remains fully committed to mutuality and financial strength and fully intends to maintain its strong balance sheet and capital position. As a mutual insurer, the Company is able to manage for the long-term to meet policyholder obligations while maintaining the highest ratings currently issued to life insurers from the various agencies.

The long-term promises the Company makes to policyholders are backed by sound asset/liability management. As the Company's liabilities are generally fixed income-like in nature, a well-diversified fixed income portfolio forms the foundation of the investment portfolio. Although the General Account assets collectively support all of our product lines, the Company's approach to asset/liability management is founded on the segregation of assets into portfolios supporting various products offered to clients. These portfolios are specifically tailored to fit the different interest rate sensitivities and cash flow characteristics associated with each of these product segments. In addition, the Company takes a comprehensive enterprise view, taking measures to mitigate overall risk exposures at the corporate level.

The Company pursues a strategy of developing and selling through our career agency force complimented by using select supplemental distribution channels. Because of the complex nature of insurance and other financial products, the Company has always believed consumers benefit from the advice and support of a qualified, highly trained professional. For this reason, the Company will continue to emphasize agency growth. The Company also actively seeks to improve its digital capabilities and capitalize on its brand name and customer recognition, while remaining committed to being a mutual company. The Company believes that this approach offers a strong value proposition to our customers and provides the Company with the basis for continued growth.

Through the agency channel, the Company will pursue sustainable growth by offering an array of life insurance products to specific target market segments while also focusing on growing its business to the middle-markets.

The Company will also leverage its premier direct distribution capabilities to develop leads for our agents and grow sales to the broader market. In addition, the Company remains committed to serving the large and growing needs of the long term care industry.

The Company seeks to help shape how the financial services industry delivers retirement income to the increasing number of Americans preparing for retirement. By leveraging its financial strength and its ability to provide product solutions, it will help to address those retirement needs.

The Company believes that its investment management operations are an important component of the overall strategy that provides support for the Company's participating whole life business, and pursues growing this business organically through its strong asset management skills, breathe of distribution and geographic footprint, as well as through an opportunistic acquisition strategy to fill out its investment strategy product offerings.

Appendix A - Financial Statement Impact of Closed Block Reinsurance

Statement of Operations Data	At or for the year ended December 31, 2016	At or for the year ended December 31, 2015		
		2015 Activity (6 months)	Ongoing Activity	Total
	(in millions)			
Income:				
Premiums	$ 210	$ 123	$ 6,212	$ 6,335
Net investment income	403	201	—	201
Other income	17	10	328	338
Total income	630	334	6,540	6,874
Benefits and expenses:				
Benefit payments	504	231	124	355
Additions to policy reserves	(197)	(57)	5,732	5,675
Adjustment in funds withheld	135	74	—	74
Operating expenses	41	19	973	992
Total benefits and expenses	483	267	6,829	7,096
Gain from operations before dividends and federal income taxes	147	67	(289)	(222)
Dividends to policyholders	93	46	124	170
Gain (loss) gain from operations before federal income taxes	54	21	(413)	(392)
Federal income taxes	(59)	(9)	275	266
Net gain (loss) from operations	113	30	(688)	(658)
Net realized capital losses, after taxes and transfers to interest maintenance reserve	(5)	(3)	—	(3)
Net income (loss)	**$ 108**	**$ 27**	**$ (688)**	**$ (661)**
Balance Sheet Data				
Total assets	$ 10,596	$ (516)	$ 11,440	$ 10,924
Total liabilities (including AVR)	$ 11,129	$ (463)	$ 12,021	$ 11,558
Surplus	$ (533)	$ (53)	$ (581)	$ (634)
Asset valuation reserve	82	82	—	82
Surplus and asset valuation reserve	$ (451)	$ 29	$ (581)	$ (552)