NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

(A wholly-owned subsidiary of
New York Life Insurance Company)

FINANCIAL STATEMENTS
(STATUTORY BASIS)
December 31, 2016 and 2015

Table of Contents

Independent Auditor's Report	1
Statutory Statements of Financial Position	3
Statutory Statements of Operations	4
Statutory Statements of Changes in Capital and Surplus	5
Statutory Statements of Cash Flows	6
Notes to Statutory Financial Statements	8
Note 1 - Nature of Operations	8
Note 2 - Basis of Presentation	8
Note 3 - Significant Accounting Policies	13
Note 4 - Business Risks and Uncertainties	19
Note 5 - Recent Accounting Pronouncements	20
Note 6 - Investments	21
Note 7 - Derivative Instruments and Risk Management	28
Note 8 - Separate Accounts	34
Note 9 - Fair Value Measurements	38
Note 10 - Investment Income and Capital Gains and Losses	52
Note 11 - Related Party Transactions	57
Note 12 - Insurance Liabilities	60
Note 13 - Reinsurance	62
Note 14 - Benefit Plans	64
Note 15 - Commitments and Contingencies	64
Note 16 - Income Taxes	69
Note 17 - Capital and Surplus	74
Note 18 - Dividends to Stockholders	74
Note 19 - Subsequent Events	75
Note 20 - Loan-Backed and Structured Security Impairments	75

Report of Independent Auditors

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

We have audited the accompanying statutory financial statements of New York Life Insurance and Annuity Corporation (the "Company"), which comprise the statutory statements of financial position as of December 31, 2016 and 2015, and the related statutory statements of operations, of changes in capital and surplus, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

PricewaterhouseCoopers LLP, PricewaterhouseCoopers Center, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (813) 286 6000, www.pwc.com/us

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2016 and 2015, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Insurance Department of the State of Delaware described in Note 2.

Emphasis of Matter

As disclosed in Note 11 to the financial statements, the Company has entered into significant related party transactions with New York Life Insurance Company and its affiliates. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

March 9, 2017

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2016	2015
	(in millions)	
Assets		
Bonds	$ 77,313	$ 71,792
Common and preferred stocks	1,090	541
Mortgage loans	12,984	12,097
Policy loans	867	877
Cash, cash equivalents and short-term investments	1,923	2,291
Limited partnerships and other invested assets	1,175	1,223
Other investments	565	380
Total cash and invested assets	95,917	89,201
Investment income due and accrued	653	613
Interest in annuity contracts	7,448	7,108
Other assets	477	538
Separate accounts assets	36,858	34,779
Total assets	$ 141,353	$ 132,239
Liabilities and Surplus		
Liabilities:		
Policy reserves	80,438	74,781
Deposit funds	1,106	981
Policy claims	151	188
Separate accounts transfers due and accrued	(938)	(887)
Obligations under structured settlement agreements	7,448	7,108
Amounts payable under security lending agreements	675	600
Other liabilities	1,539	1,184
Funds held under coinsurance - affiliated	4,154	4,255
Interest maintenance reserve	147	175
Asset valuation reserve	1,052	931
Separate accounts liabilities	36,856	34,777
Total liabilities	132,628	124,093
Capital and Surplus:		
Capital stock - par value $10,000 (20,000 shares authorized, 2,500 issued and outstanding)	25	25
Gross paid in and contributed surplus	3,928	3,928
Unassigned surplus	4,772	4,193
Total capital and surplus	8,725	8,146
Total liabilities, capital and surplus	$ 141,353	$ 132,239

See accompanying notes to financial statements.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2016	**2015**
	(in millions)	
Income		
Premiums	$ 12,770	$ 12,723
Net investment income	3,795	3,632
Other income	862	838
Total income	17,427	17,193
Benefits and expenses		
Benefit payments:		
Death benefits	394	374
Annuity benefits	2,555	2,536
Surrender benefits	5,805	5,987
Other benefit payments	44	37
Total benefit payments	8,798	8,934
Additions to policy reserves	5,564	4,407
Net transfers to separate accounts	297	1,413
Adjustment in funds withheld	179	196
Operating expenses	1,420	1,501
Total benefits and expenses	16,258	16,451
Gain from operations before federal income taxes	1,169	742
Federal and foreign income taxes	279	266
Net gain from operations	890	476
Net realized capital losses, after taxes and transfers to interest maintenance reserve	(112)	(79)
Net income	$ 778	$ 397

See accompanying notes to financial statements.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

	December 31, 2016	December 31, 2015
	(in millions)	
Capital and surplus, beginning of year	$ 8,146	$ 7,669
Net income	778	397
Change in net unrealized capital gains on investments	32	28
Change in nonadmitted assets	(91)	(151)
Change in reserve valuation basis	(72)	—
Change in asset valuation reserve	(121)	(39)
Change in accounting principles	-	79
Change in net deferred income tax	54	167
Other adjustments, net	(1)	(4)
Capital and surplus, end of year	$ 8,725	$ 8,146

See accompanying notes to financial statements.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
	(in millions)	
Cash flows from operating activities:		
Premiums received	$ 12,765	$ 12,735
Net investment income received	3,518	3,370
Other	851	838
Total received	17,134	16,943
Benefits and other payments	8,783	8,919
Net transfers to separate accounts	336	1,449
Operating expenses	1,379	1,463
Federal income taxes	254	203
Total paid	10,752	12,034
Net cash from operating activities	6,382	4,909
Cash flows from investing activities:		
Proceeds from investments sold	4,257	5,353
Proceeds from investments matured or repaid	10,048	20,846
Cost of investments acquired	(20,896)	(29,305)
Net change in policy loans	5	2
Net cash used in investing activities	(6,586)	(3,104)
Cash flows from financing and miscellaneous activities:		
Net repayment under credit agreement		(1)
Other miscellaneous uses	(164)	(157)
Net cash used in financing and miscellaneous activities	(164)	(158)
Net increase in cash, cash equivalents and short-term investments	(368)	1,647
Cash, cash equivalents and short-term investments, beginning of year	2,291	644
Cash, cash equivalents and short-term investments, end of year	$ 1,923	$ 2,291

See accompanying notes to financial statements.

NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION
(A wholly owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CASH FLOWS (supplemental)

	Years Ended December 31,	
	2016	2015
	(in millions)	
Supplemental disclosures of cash flow information:		
Non-cash activities during the year not included in the Statutory Statements of Cash Flows:		
Bond to be announced commitments - purchased/sold	$ 903	$ 412
Exchange/conversion of bonds to bonds	$ 418	$ 374
Capitalized interest on bonds	$ 143	$ 154
Exchange of bonds to stocks	$ 88	$ 76
Depreciation/amortization on fixed assets	$ 71	$ 63
Transfer of other invested assets to stocks	$ 51	$ —
Madison Capital Funding LLC investment (other invested assets) and note funding agreement (bonds)	$ —	$ 2,261
Capitalized interest on affiliated other invested assets	$ —	$ 63
Other	$ 44	$ 28

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS

New York Life Insurance and Annuity Corporation ("the Company"), domiciled in the State of Delaware, is a direct, wholly-owned subsidiary of New York Life Insurance Company ("New York Life"). The Company's primary business operations are its life and annuity business and its investment management activities. The Company offers a wide variety of interest sensitive and variable life insurance and annuity products to a large cross section of the insurance market. The Company markets its products in all 50 states of the United States of America and the District of Columbia, primarily through New York Life's career agency force, with certain products also marketed through independent brokers, brokerage general agents and banks.

NOTE 2 - BASIS OF PRESENTATION

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

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

Statutory vs. U.S. GAAP Basis of Accounting

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

- investments in controlled entities, including partnerships and limited liability companies, are not consolidated with the financial statements of the Company, whereas under U.S. GAAP, consolidated financial statements are prepared;

- contracts that have any mortality or morbidity risk at the Statutory basis, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts, whereas under U.S. GAAP, only contracts that have significant mortality or morbidity risk are classified as insurance contracts, otherwise they are accounted for in a manner consistent with the accounting for interest bearing or other financial instruments;

- the costs related to acquiring insurance contracts (principally commissions), policy issue expenses and sales inducements are charged to income in the period incurred, whereas under U.S. GAAP, these costs are deferred when related to successful sales and amortized over the periods benefited;

- life insurance and annuity reserves are based on different statutory methods and assumptions than they are under U.S. GAAP;

- certain universal life and variable universal life policies which do not pass through all investment gains to policyholders are maintained in separate accounts, whereas U.S. GAAP reports these policies in the general account assets and liabilities of the Company; and

- premiums for universal life-type policies and fixed and variable annuity contracts are reported in income, whereas under U.S. GAAP, premiums, net of any loads, are recorded directly to the policyholder liability. Income for these contracts under U.S. GAAP are the fees assessed against the contract with amounts assessed for services to be provided by the Company in future years deferred and amortized over the periods benefited;

- reinsurance agreements are accounted for as reinsurance on an NAIC SAP and U.S. GAAP basis if certain risk transfer provisions have been met. NAIC SAP requires the reinsurer to assume insurance risk, regardless of the significance of the loss potential, whereas U.S. GAAP requires that there is a reasonable possibility that the reinsurer may realize significant loss from assuming insurance risk; assets and liabilities from reinsurance transactions are reported net of reinsurance, whereas under U.S. GAAP, assets and liabilities from reinsurance transactions are reported gross of reinsurance;

- U.S. GAAP requires that for certain reinsurance agreements, whereby assets are retained by the ceding insurer (such as funds withheld or modified coinsurance) and a return is paid based on the performance of underlying investments, that the liabilities for these reinsurance arrangements must be adjusted to reflect the fair value of the invested assets; NAIC SAP does not contain a similar requirement;

- investments in controlled entities as defined in SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities ("SCA"), including partnerships and limited liability companies, are accounted for under the equity method. Under the equity method, controlled entities are recorded at their underlying audited GAAP equity. In the absence of an admissible audit, the entire investment is nonadmitted. Changes in the value of such investments are recorded as unrealized gains or losses. The earnings of such investments are recorded in net investment income only when dividends are declared. Under U.S. GAAP, these investments are consolidated;

- investments in noncontrolled partnerships and limited liability companies are accounted for under the equity method for both NAIC SAP and U.S GAAP. Under the statutory equity method, undistributed income and capital gains and losses for these investments are reported in surplus as unrealized gains or losses, whereas under U.S. GAAP, for investment companies, unrealized gains and losses are included in net investment income;

- investments in bonds are generally carried at amortized cost or values as prescribed by the DSID, whereas under U.S. GAAP, investments in bonds that are classified as available-for-sale or trading are carried at fair value, with changes in fair value of bonds classified as available-for-sale reflected in equity, and changes in fair value of bonds classified as trading reflected in earnings;

- an asset valuation reserve ("AVR") based on a formula prescribed by NAIC is established as a liability to offset potential non-interest related investment losses. Changes in the AVR are recorded directly to surplus, whereas under U.S. GAAP, no AVR is recognized;

- realized gains and losses resulting from changes in interest rates are deferred in the interest maintenance reserve ("IMR") and amortized into investment income over the remaining life of the investment sold, whereas under U.S. GAAP, the gains and losses are recognized in income at the time of sale;

- deferred income taxes exclude state income taxes and are admitted to the extent they can be realized within three years subject to a 15% limitation of capital and surplus with changes in the net deferred tax reflected as a component of surplus, whereas under U.S. GAAP, deferred income taxes include federal and state income taxes and changes in deferred taxes are reflected in either earnings or other comprehensive income;

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

- certain assets, such as unsecured receivables are considered nonadmitted and excluded from assets, whereas they are included in assets under U.S. GAAP subject to a valuation allowance, as appropriate;

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

- contracts that contain an embedded derivative are not bifurcated between components and are accounted for consistent with the host contract, whereas under U.S. GAAP either the contract is recorded at fair value with changes in the fair value included in earnings or the embedded derivative needs to be bifurcated from the host contract and accounted for separately;

- certain derivative instruments are carried at amortized cost, whereas under U.S. GAAP, all derivative instruments are carried at fair value;

- changes in the fair value of derivative instruments not carried at amortized cost are recorded as unrealized capital gains or losses and reported as changes in surplus, whereas under U.S. GAAP, these changes are generally reported through earnings unless they qualify and are designated for cash flow or net investment hedge accounting;

The effects on the financial statements of the above variances between NAIC SAP as determined under the Delaware State Insurance Law and U.S. GAAP are material to the Company.

The following table reconciles the Company's statutory capital and surplus determined in accordance with statutory accounting practices with the Company's consolidated equity determined on a U.S. GAAP basis at December 31, 2016 and 2015 (in millions):

	2016	2015
Capital and surplus	$ 8,725	$ 8,146
AVR	1,052	931
Capital and surplus and AVR	9,777	9,077
Adjustments to statutory-basis for:		
Deferred acquisition cost asset ("DAC")	4,076	4,187
Mark-to-market on investments, pre-tax and pre-DAC	1,904	1,598
Net assets of separate accounts	149	140
Removal of IMR liability	147	175
Inclusion of statutory nonadmitted assets	98	62
Unearned revenue liability	(682)	(672)
Re-estimation of future benefits and policyholders' account balances	(1,361)	(1,303)
Net adjustment for deferred taxes	(1,071)	(1,110)
Other	46	143
Total adjustments	3,306	3,220
Total consolidated U.S. GAAP equity	$ 13,083	$ 12,297

NOTE 2 - BASIS OF PRESENTATION (continued)

The following table reconciles the Company’s statutory net income determined in accordance with statutory accounting practices with the Company’s consolidated net income determined on a U.S. GAAP basis for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Net gain from operations	$ 890	$ 476
Realized capital (losses) gains	(112)	(79)
Statutory net income	778	397
Adjustments to statutory net income for:		
Net capitalization of DAC	(77)	41
Inclusion of GAAP net investment gains(losses)	5	13
Removal of IMR capitalization, net of amortization	(28)	6
Net deferral of unearned revenue liability	(15)	(56)
Inclusion of deferred income tax benefit (expense)	84	31
Re-estimation of future benefits and policyholders' account balances	(129)	119
Other	87	74
Total adjustments	(73)	228
Total consolidated U.S. GAAP net income	$ 705	$ 625

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Investments

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

Bonds other than loan-backed and structured securities are stated at amortized cost using the interest method. Bonds in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. Refer to Note 9 - Fair Value Measurements, for discussion of valuation methods for bonds.

Loan-backed and structured securities, which are included in bonds, are valued at amortized cost using the interest method including current assumptions of projected cash flows. Loan-backed and structured securities in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. Amortization of the premium or accretion of discount from the purchase of these securities considers the estimated timing and amount of cash flows of the underlying loans, including prepayment assumptions based on data obtained from external sources or internal estimates. Projected future cash flows are updated monthly, and the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. For high credit quality loan-backed and structured securities (those rated AA or above at the date of acquisition), the adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For loan-backed and structured securities that are not of high credit quality (those rated below AA at date of acquisition), certain floating rate securities and securities with the potential for a loss of a portion of the original investment due to contractual prepayments (e.g. interest only securities), the effective yield is adjusted prospectively for any changes in estimated cash flows.

Preferred stocks in “good standing” (NAIC designation of 1 to 3) are valued at amortized cost. Preferred stocks “not in good standing” (NAIC designation of 4 to 6) are valued at the lower of amortized cost or fair value. Refer to Note 9 - Fair Value Measurements, for discussion of valuation methods for preferred stocks.

Common stocks include the Company’s investments in unaffiliated stocks which are carried at fair value. Unrealized gains and losses are reflected in surplus, net of deferred taxes. Refer to Note 9 - Fair Value Measurements, for discussion of valuation methods for common stocks.

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

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

For loan-backed and structured securities, the entire difference between the security's amortized cost and its fair value is recognized in net income only when the Company (1) has the intent to sell the security or (2) it does not have the intent and ability to hold the security to recovery. If neither of these two conditions exists, a realized loss is recognized in net income for the difference between the amortized cost basis of the security and the net present value of projected future cash flows expected to be collected. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the loan-backed or structured security prior to impairment.

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

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

Mortgage loans on real estate are carried at unpaid principal balances, net of discounts and premiums and specific valuation allowances, and are secured. Specific valuation allowances are established for the excess carrying value of the mortgage loan over the estimated fair value of the collateral as an unrealized loss in surplus, 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. Fair value of the collateral is estimated by performing an internal or external current appraisal. If impairment is deemed to be other-than-temporary, which can include a loan modification that qualifies as a troubled debt restructuring ("TDR"), a direct write-down is recognized as a realized loss reported in net income, and a new cost basis for the individual mortgage loan, which is equal to the fair value of the collateral, less costs to obtain and sell, is established. Refer to Note 9 - Fair Value Measurements, for discussion of valuation methods for mortgage loans.

The Company accrues interest income on mortgage loans to the extent it is deemed collectible. The Company places loans on non-accrual status, and ceases to recognize interest income when management determines that the collection of interest and repayment of principal is not probable. Any accrued but uncollected interest is reversed out of interest income once a loan is put on non-accrual status. Interest payments received on mortgage loans where interest payments have been deemed uncollectible, are recognized on a cash basis

and recorded as principal payment. If a determination is made that the principal will not be collected, the interest payment received is used to reduce the principal balance. If a mortgage loan has any investment income due and accrued that is 90 days past due and collectible, the investment income will continue to accrue, but all accrued interest related to the mortgage loan is reported as a nonadmitted asset, until such time that it has been paid or is deemed uncollectible.

Real estate includes properties that are directly-owned real estate properties. Real estate held for the production of income is stated at cost less accumulated depreciation and encumbrances. Real estate held for sale is stated at the lower of cost less accumulated depreciation or fair value less encumbrances and estimated costs to sell, which may result in an OTTI recognized as a realized loss in net income. Depreciation of real estate held for the production of income is calculated using the straight-line method over the estimated lives of the assets, generally 40 years. Costs of permanent improvements are depreciated over their estimated useful life.

Policy loans are stated at the aggregate balance due. The excess of the unpaid balance of a policy loan that exceeds the cash surrender value is nonadmitted.

Limited partnerships and limited liability companies which have admissible audits are carried at the underlying audited equity of the investee. The cost basis of limited partnerships is adjusted for impairments in value deemed to be other-than-temporary, with the difference between cost and carrying value, which approximates fair value, recognized as a realized loss reported in net income. The new cost basis of an impaired limited partnership is not adjusted for subsequent increases in the underlying audited equity of the investee. The Company nonadmits the entire investment when an admissible audit is not performed. Dividends and distributions from limited partnerships and limited liability companies, other than those deemed a return of capital, are recorded in net investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in surplus, net of deferred taxes.

Low-Income Housing Tax Credit (“LIHTC”) investments, which are included in limited partnerships and other invested assets, are recorded at proportional amortized cost and include remaining unfunded commitments. The carrying value of the investment is amortized into income in proportion to the actual and projected future amounts of tax credits and deductible losses. The amortization is recorded through net investment income.

Derivative instruments that qualify and are designated for hedge accounting are valued in a manner consistent with the items being hedged. Periodic payments and receipts on these derivatives are recorded on an accrual basis within net investment income for hedges of fixed income securities. Net realized gains and losses are recognized upon termination or maturity of these contracts in a manner consistent with the hedged item and when subject to the IMR are transferred to the IMR, net of taxes.

Derivative instruments that do not qualify or are not designated for hedge accounting are carried at fair value and changes in fair value are recorded in surplus as unrealized gains and losses, net of deferred taxes. Periodic payments and receipts on these derivatives are recorded on an accrual basis within net investment income for hedges of fixed income securities and other income for hedges of liabilities and net realized capital gains and losses for credit default swaps. Upon termination or maturity the gains or losses on these contracts are recognized in net realized capital gains and losses, net of taxes. Realized gains or losses on terminated or matured derivatives, which are subject to the IMR, are transferred to the IMR, net of taxes.

Short-term investments consist of securities with remaining maturities of one year or less but greater than three months at the time of acquisition and are carried at amortized cost, which approximates fair value.

Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at date of purchase and are stated at amortized cost.

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

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

Loaned Securities and Repurchase Agreements

The Company enters into securities lending agreements whereby certain investment securities are loaned to third-parties. Securities loaned are treated as financing arrangements. With respect to securities loaned, in order to reduce the Company’s risk under these transactions, the Company requires initial cash collateral equal to 102% of the fair value of domestic securities loaned. The Company records an offsetting liability in amounts payable under security lending agreements. The Company monitors the fair value of securities loaned with additional collateral obtained as necessary. The borrower of the loaned securities is permitted to sell or repledge those securities.

The Company enters into dollar roll repurchase agreements to sell and repurchase securities. Assets to be repurchased are the same, or substantially the same, as the assets sold. The Company agrees to sell securities at a specified price and repurchase the securities at a lower price. The Company receives cash in the amount of the sales proceeds and establishes a liability equal to the repurchase amount. The difference between the sale and repurchase amounts represents deferred income which is earned over the life of the agreement. The liability for repurchasing the assets is included in other liabilities.

The Company enters into tri-party repurchase agreements (also known as reverse repurchase agreements) to purchase and resell securities. The Company receives securities as collateral, having a fair value at least equal to 102% of the purchase price paid by the Company for the securities and the Company’s designated custodian takes possession of this collateral. The Company is not permitted to sell or repledge these securities. The collateral is not recorded on the Company’s financial statements. However, if the counterparty defaults, the Company would then exercise its rights with respect to the collateral, including a sale of the collateral. The fair value of the securities held as collateral is monitored daily and additional collateral is obtained, where appropriate, to protect against credit exposure.

Premiums and Related Expenses

Life premiums are recognized as revenue when due. Annuity considerations are recognized as revenue when received. Commissions and other costs associated with acquiring new business are charged to operations as incurred. Amounts received or paid under deposit type contracts without mortality or morbidity risk are not reported as income or benefits but are recorded directly as an adjustment to the liability for deposit funds.

Policy Reserves

Policy reserves are based on mortality tables and valuation interest rates, which are consistent with statutory requirements and are designed to be sufficient to provide for contractual benefits. The Company holds reserves greater than those developed under the minimum statutory reserving rules when the valuation actuary determines that the minimum statutory reserves are inadequate. Actual results could differ from these estimates and may result in the establishment of additional reserves. The valuation actuary monitors actual experience and, where circumstances warrant, revises assumptions and the related estimates for policy reserves. Refer to Note 12 - Insurance Liabilities, for discussion of reserves in excess of minimum NAIC requirements.

Federal Income Taxes

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

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

Separate Accounts

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 accounts policyholders. Assets held in non-guaranteed separate accounts are stated at market value. Assets held in guaranteed separate accounts are carried at the same basis as the general account up to the value of policyholder reserves and at fair value thereafter.

The liability for separate accounts represents policyholders' interests in the separate accounts assets, excluding liabilities representing due and accrued transfers to the general account. The liability for non-guaranteed separate accounts represents policyholders' interests in the separate accounts assets, including accumulated net investment income and realized and unrealized gains and losses on those assets. For the guaranteed separate accounts, the liability represents amounts due to policyholders pursuant to the terms of the contract.

Other Assets and Liabilities

Other assets primarily consist of net DTAs and other receivables.

Other liabilities consist primarily of payable to parent, derivative liabilities, amounts payable for undelivered securities and reinsurance payables.

Nonadmitted Assets

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

Nonadmitted assets typically include agents' debit balances, DTAs not realizable within three years, and receivables over ninety days past due. Changes to nonadmitted assets are reported as a direct adjustment to surplus in the accompanying Statutory Statements of Changes in Surplus.

Fair Value of Financial Instruments and Insurance Liabilities

Fair value of various assets and liabilities are included throughout the notes to the financial statements. Specifically, fair value disclosure of investments held is reported in Note 6 - Investments. Fair values for derivative instruments are included in Note 7 - Derivative Instruments and Risk Management. Fair values for insurance liabilities are reported in Note 12 - Insurance Liabilities. The aggregate fair value of all financial instruments summarized by type is included in Note 9 - Fair Value Measurements.

Contingencies

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

At the inception of a guarantee, the Company recognizes an initial liability at fair value for the obligations it has undertaken, regardless of the probability of performance under the guarantee.

Foreign Currency Transactions

For foreign currency items, income and expenses are translated at the average exchange rate for the period, while assets and liabilities are translated using the spot rate in effect at the date of the statements. Changes in the asset and liability values due to fluctuations in foreign currency exchange rates are recorded as unrealized capital gains and losses in surplus until the asset is sold or exchanged or the liability is settled. Upon settlement, previously recorded unrealized capital gains and losses are reversed, and the foreign exchange gain or loss for the entire holding period is recorded as a realized capital gain or loss in net income.

NOTE 4 - BUSINESS RISKS AND UNCERTAINTIES

The Company is exposed to an array of risks, including, but not limited to, regulatory actions, financial risk, risks associated with its investments and operational risk, including cyber security.

The Company is regulated by the insurance departments of the states and territories where it is licensed to do business. Although the federal government does not directly regulate the business of insurance, federal legislation and administrative policies can significantly and adversely affect the insurance industry and the Company. The Company is unable to predict whether any administrative or legislative proposals, at both the federal or state level, will be adopted in the future, or the effect, if any, such proposals would have on the Company.

The Company's insurance liabilities and assets under management are exposed to market risk, policyholder behavior risk and mortality/longevity risk. Market volatility and other equity market conditions may affect the Company's exposure to risks related to guaranteed death benefits and guaranteed living benefits on variable annuity products. Furthermore, the level of sales of the Company's insurance and investment products is influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets, and terms and conditions of competing products.

The Company is exposed to the risks normally associated with an investment portfolio, which include interest rate, liquidity, credit and counterparty risks. The Company controls its exposure to these risks by, among other things, closely monitoring and managing the duration and cash flows of its assets and liabilities, maintaining a large percentage of its portfolio in highly liquid securities, engaging in a disciplined process of underwriting, reviewing and monitoring credit risk, and by devoting significant resources to develop and periodically update its risk management policies and procedures.

The Company relies on computer systems to conduct business and to retain confidential information. The failure of the Company's computer systems for any reason could disrupt its operations, result in the loss of customer business, damage the Company's reputation, expose the Company to litigation and regulatory action and adversely impact its profitability.

NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Principles

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

In 2015, the NAIC provided clarification on the accounting for prepayment penalties on bonds. Specifically, the NAIC proposed changes to SSAP No. 26, "Bonds, Excluding Loan-backed and Structured Securities", and SSAP No. 43R, "Loan-Backed and Structured Securities", to clarify that a prepayment penalty represents the amount of proceeds received over the par value of the bond and that such amount should be recorded in investment income. Historically, the Company had reported prepayment penalties as realized gains and deferred them in the IMR based on the Company's interpretation of the IMR instructions. Based on the new clarification from the NAIC, a cumulative effect of change in accounting principle was recorded as of January 1, 2015 to remove any unamortized amounts from the IMR related to prepayment penalties. The cumulative impact of the change increased surplus by $79 million at January 1, 2015.

Future Adoption of New Accounting Pronouncement

In 2016, the NAIC announced that enough states had passed the new standard valuation law to make the Principle Based Reserving ("PBR") valuation manual operative for individual life products. Under PBR, companies will hold reserves at the higher of the three basis; a) the formulaic reserve using prescribed factors or b) the reserve computed under a single economic scenario using justified company experience assumptions which consists of mortality, expenses and policyholder behavior among other assumptions or c) the reserve based on a wide range of future economic conditions using justified company experience assumptions which consists of mortality, expenses and policyholder behavior among other assumptions. Products passing certain specified exclusion tests may be exempt from the calculation of reserves under b) and/or c) above. Insurers are allowed to voluntarily adopt the new standard on a prospective basis to insurance policies issued on or after January 1, 2017. The new standard is mandatory for policies issued on or after January 1, 2020. The Company is assessing the impact of this guidance on its financial statements.

NOTE 6 - INVESTMENTS

Bonds

The carrying value and estimated fair value of bonds at December 31, 2016 and 2015, by maturity, are as follows (in millions):

	2016		2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Due in one year or less	$ 4,543	$ 4,613	$ 5,093	$ 5,193
Due after one year through five years	22,636	23,332	20,624	21,234
Due after five years through ten years[1]	29,795	30,249	27,805	27,909
Due after ten years	20,339	21,047	18,270	19,074
Total	$ 77,313	$ 79,241	$ 71,792	$ 73,410

[1] Includes an affiliated bond issued by Madison Capital Fund LLC ("MCF"). Refer to Note 11 - Related Party Transactions for a more detailed discussion of related party investments.

Corporate bonds are shown based on contractual maturity. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage and asset-backed securities are not due at a single maturity date and therefore are shown based on the expected cash flows of the underlying loans, which includes estimates of anticipated future prepayments.

Short-term investments with a carrying value of $180 million and $170 million at December 31, 2016 and 2015, respectively, and cash equivalents with a carrying value of $1,933 million and $2,262 million at December 31, 2016 and 2015, respectively, are included in due in one year or less in the table above. Carrying value approximates fair value for these investments.

NOTE 6 - INVESTMENTS (continued)

At December 31, 2016 and 2015, the distribution of gross unrealized gains and losses on bonds was as follows (in millions):

	2016			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury	$ 1,422	$ 47	$ 26	$ 1,443
U.S. government corporations and agencies	917	83	12	988
U.S. agency mortgage and asset-backed securities	13,954	592	222	14,324
Foreign governments	309	31	—	340
U.S. corporate	34,894	1,414	403	35,905
Foreign corporate	10,929	397	74	11,252
Non-agency residential mortgage-backed securities	930	44	16	958
Non-agency commercial mortgage-backed securities	5,076	90	72	5,094
Non-agency asset-backed securities	7,102	89	70	7,121
Bonds from affiliates	1,780	36	—	1,816
Total	$ 77,313	$ 2,823	$ 895	$ 79,241

	2015			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury	$ 811	$ 51	$ 3	$ 859
U.S. government corporations and agencies	753	89	1	841
U.S. agency mortgage and asset-backed securities	12,221	769	85	12,905
Foreign governments	330	40	—	370
U.S. corporate	32,619	1,287	617	33,289
Foreign corporate	11,138	265	276	11,127
Non-agency residential mortgage-backed securities	1,206	52	23	1,235
Non-agency commercial mortgage-backed securities	4,609	84	32	4,661
Non-agency asset-backed securities	6,398	88	70	6,416
Bonds from affiliates	1,707	—	—	1,707
Total	$ 71,792	$ 2,725	$ 1,107	$ 73,410

Common and Preferred Stocks

The carrying value of and change in unrealized gains (losses) generated by common and preferred stocks at December 31, 2016 and 2015 were as follows (in millions):

	2016		2015	
	Carrying Value	Unrealized Gain (Loss)	Carrying Value	Unrealized Gain (Loss)
Common stocks	$ 1,079	$ 46	$ 536	$ (13)
Preferred stocks	11	—	5	—
Total	$ 1,090	$ 46	$ 541	$ (13)

Mortgage Loans

The Company's mortgage loans are diversified by property type, location and borrower, and are collateralized. The maximum and minimum lending rates for commercial mortgage loans funded during 2016 were 8.0% and 2.3% and funded during 2015 were 6.5% and 1.9%, respectively. The maximum percentage of any one commercial loan to the value of the collateral at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 92.4% (average percentage was 53.0% and 53.5% at 12/31/2016 and 2015, respectively). The maximum percentage of any residential loan to the value of the collateral at the time of the loan was 80% (average percentage was 42.1% and 39.8% at 12/31/2016 and 2015, respectively). The Company has no significant credit risk exposure to any one individual borrower.

At December 31, 2016 and 2015, the distribution of the mortgage loan portfolio by property type and geographic location was as follows ($ in millions):

	2016		2015	
	Carrying Value	% of Total	Carrying Value	% of Total
Property Type:				
Office buildings	$ 3,963	30.5 %	$ 3,994	33.0 %
Apartment buildings	3,731	28.8	3,600	29.8
Retail facilities	3,603	27.7	3,105	25.7
Industrial	1,426	11.0	1,131	9.3
Hotels	177	1.4	165	1.4
Residential	54	0.4	77	0.6
Other	30	0.2	25	0.2
Total	$ 12,984	100.0 %	$ 12,097	100.0 %

	2016		2015	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic Location:				
South Atlantic	$ 3,404	26.2 %	$ 3,157	26.1 %
Central	2,865	22.1	2,662	22.0
Middle Atlantic	2,820	21.7	2,486	20.6
Pacific	2,688	20.7	2,609	21.6
New England	1,119	8.6	1,093	9.0
Other	88	0.7	90	0.7
Total	$ 12,984	100.0 %	$ 12,097	100.0 %

At December 31, 2016 and 2015, $28 million and $31 million, respectively, of mortgage loans were past due 90 days and over.

The Company maintains a watchlist of commercial loans that may potentially be impaired. The general guidelines analyzed to include commercial loans within the watchlist are loan-to-value ratio ("LTV"), asset performance such as debt service coverage ratio, lease rollovers, income/expense hurdles, major tenant or borrower issues, the economic climate, and catastrophic events, among others. Loans placed on the watchlist generally take priority in being revalued in the Company's inspection/evaluation commercial loan program that revalues properties securing commercial loans. The guideline for analyzing residential loans occurs once

a loan is 60 or more days delinquent. At that point, an appraisal or broker's price opinion of the underlying asset is obtained.

LTV is deemed as one of the key mortgage loan indicators to assess credit quality and to assist in identifying problem loans. At December 31, 2016 and 2015, LTVs on the Company's mortgage loans were as follows (in millions):

	2016							
Loan to Value % (By Class)	**Office Buildings**	**Apartment Buildings**	**Retail Facilities**	**Industrial**	**Hotels**	**Residential**	**Other**	**Total**
Above 95%	$ —	$ —	$ —	$ 23	$ —	$ 1	$ —	$ 24
91% to 95%	—	—	—	—	—	—	—	—
81% to 90%	43	—	—	—	—	1	—	44
71% to 80%	50	378	176	4	—	9	—	617
below 70%	3,870	3,353	3,427	1,399	177	43	30	12,299
Total	$ 3,963	$ 3,731	$ 3,603	$ 1,426	$ 177	$ 54	$ 30	$ 12,984

	2015							
Loan to Value % (By Class)	**Office Buildings**	**Apartment Buildings**	**Retail Facilities**	**Industrial**	**Hotels**	**Residential**	**Other**	**Total**
Above 95%	$ —	$ —	$ —	$ 26	$ —	$ 1	$ —	$ 27
91% to 95%	—	—	—	—	—	—	—	—
81% to 90%	43	—	—	—	—	2	—	45
71% to 80%	87	374	242	11	18	9	—	741
below 70%	3,864	3,226	2,863	1,094	147	65	25	11,284
Total	$ 3,994	$ 3,600	$ 3,105	$ 1,131	$ 165	$ 77	$ 25	$ 12,097

Impaired mortgage loans at December 31, 2016 and 2015 were as follows (in millions):

	2016					
Type	**Impaired Loans with Allowance for Credit Losses**	**Related Allowance**	**Impaired Loans Without Allowance for Credit Losses**	**Average Recorded Investment**	**Interest Income Recognized**	**Interest Income on a Cash Basis During the Period**
Residential	$ 1	$ —	$ 4	$ 5	$ —	$ —
Commercial	—	—	23	25	—	—
Total	$ 1	$ —	$ 27	$ 30	$ —	$ —

	2015					
Type	**Impaired Loans with Allowance for Credit Losses**	**Related Allowance**	**Impaired Loans Without Allowance for Credit Losses**	**Average Recorded Investment**	**Interest Income Recognized**	**Interest Income on a Cash Basis During the Period**
Residential	$ 1	$ —	$ 4	$ 3	$ —	$ —
Commercial	—	—	26	30	—	—
Total	$ 1	$ —	$ 30	$ 33	$ —	$ —

Real Estate

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

	2016	2015
Investment property	$ 56	$ 56
Acquired through foreclosure	2	1
Total real estate	$ 58	$ 57

At December 31, 2016 and 2015, the Company had $2 million and $1 million, respectively, of real estate that was held for sale, which consisted of residential properties acquired through foreclosure.

Limited Partnerships and Other Invested Assets

The carrying value of limited partnerships and other invested assets at December 31, 2016 and 2015 consists of the following (in millions):

	2016	2015
Affiliated non-insurance subsidiaries	$ 573	$ 540
Limited partnerships and limited liability companies	392	444
Other invested assets	87	98
LIHTC investments	116	130
Collateralized third-party loans	7	11
Total limited partnerships and other invested assets	$ 1,175	$ 1,223

Net investment income and change in unrealized gains/losses for limited partnerships and other invested assets for the years ended December 31, 2016 and 2015 consist of the following (in millions):

	Net Investment Income		Unrealized gains/ losses	
	2016	2015	2016	2015
Affiliated non-insurance subsidiaries	$ 56	$ —	$ 33	$ (18)
Limited partnerships and limited liability companies	22	24	12	(10)
Other invested assets	6	10	—	—
LIHTC investments	(32)	(40)	—	—
Loans to affiliates	—	100	—	—
Total limited partnerships and other invested assets	$ 52	$ 94	$ 45	$ (28)

At December 31, 2016 and 2015, affiliated non-insurance subsidiaries includes the Company's equity investment in MCF. On December 31, 2015, the Company repaid its loan to MCF. Refer to Note 11 - Related Party Transactions for a more detailed discussion of the Company's transactions with related parties. Dividends are recorded in net investment income when declared and changes in the equity of subsidiaries are recorded in unrealized gains and losses in surplus.

Limited partnerships and limited liability companies primarily consist of limited partnership interests in mezzanine funds, wind energy investments, and other equity investments. Distributions other than those

deemed a return of capital, are recorded as net investment income. Undistributed earnings are included in unrealized gains and losses in surplus.

At December 31, 2016, the Company had $12 million of investments in limited partnerships and limited liability companies that were nonadmitted, and therefore excluded from the amounts in the table above. During the year ended December 31, 2016, the change in nonadmitted assets resulted in a $(12) million increase (decrease) to surplus.

Other invested assets consist primarily of investments in surplus notes and other investments with characteristics of debt. Interest earned on these investments is included in net investment income.

The Company receives tax credits related to its investments in LIHTC partnerships. The Company's unexpired tax credits on its investments in LIHTC expire within a range of less than one year to 12 years. During 2016 and 2015, the Company recorded amortization on these investments under the proportional amortized cost method of $32 million and $40 million, respectively. The Company recorded tax credits and other tax benefits on these investments of $42 million and $49 million for 2016 and 2015, respectively. The minimum holding period required for the Company's LIHTC investments extends from five years to 15 years. The LIHTC investments are periodically subject to regulatory reviews by housing authorities where the properties are located. The Company is not aware of any adverse issues related to such regulatory reviews. The Company's investment in LIHTC partnerships includes $32 million and $14 million of unfunded commitments at December 31, 2016 and 2015, respectively.

NOTE 6 - INVESTMENTS (continued)

Assets on Deposit or Pledged as Collateral

At December 31, 2016 and 2015, the Company's restricted assets (including pledged collateral) were as follows (in millions):

	2016						
	Gross (Admitted and Nonadmitted) Restricted					**Percentage**	
Restricted Asset Category	Total General Account (G/A)	Total	Total From Prior Year	Increase (Decrease)	Total Admitted Restricted	Gross (Admitted and Non-admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Collateral held under security lending agreements	$ 675	$ 675	$ 600	$ 75	$ 675	0.476%	0.478%
Subject to reverse repurchase agreements	298	298	298	—	298	0.210%	0.211%
Letter stock or securities restricted as to sale - excluding Federal Home Loan Bank ("FHLB") capital stock	15	15	5	10	15	0.011%	0.011%
FHLB capital stock	24	24	24	—	24	0.017%	0.017%
On deposit with states	4	4	4	—	4	0.003%	0.003%
Total Restricted Assets	$ 1,016	$ 1,016	$ 931	$ 85	$ 1,016	0.716%	0.719%

	2015						
	Gross (Admitted and Nonadmitted) Restricted					**Percentage**	
Restricted Asset Category	Total General Account (G/A)	Total	Total From Prior Year	Increase (Decrease)	Total Admitted Restricted	Gross (Admitted and Non-admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Collateral held under security lending agreements	$ 600	$ 600	$ 550	$ 50	$ 600	0.452%	0.454%
Subject to reverse repurchase agreements	298	298	133	165	298	0.224%	0.225%
Placed under option contracts	—	—	—	—	—	0.000%	0.000%
Letter stock or securities restricted as to sale - excluding FHLB capital stock	5	5	3	3	5	0.004%	0.004%
FHLB capital stock	24	24	—	24	24	0.018%	0.018%
On deposit with states	4	4	4	—	4	0.003%	0.003%
Total Restricted Assets	$ 931	$ 931	$ 690	$ 242	$ 931	0.701%	0.704%

Collateral Received

At December 31, 2016 and 2015, the Company's assets received as collateral, reflected as assets within the Company's financial statements, along with a liability to return such collateral were as follows ($ in millions):

	2016			
Cash Collateral Assets	Book/ Adjusted Carrying Value	Fair Value	% or Assets to Total Assets (Admitted and Nonadmitted)	% of Assets to Total Admitted Assets
Securities lending	$ 675	$ 675	0.5%	0.5%
Derivatives	400	400	0.3	0.3
Total	$ 1,075	$ 1,075	0.8%	0.8%

	2015			
Cash Collateral Assets	Book/ Adjusted Carrying Value	Fair Value	% or Assets to Total Assets (Admitted and Nonadmitted)	% of Assets to Total Admitted Assets
Securities lending	$ 600	$ 600	0.5%	0.5%
Derivatives	264	264	0.2	0.2
Total	$ 864	$ 864	0.7%	0.7%

Cash received on securities lending transactions is then reinvested in short-term investments and bonds with various maturities as shown in Note 15 - Commitments and Contingencies.

	2016		2015	
Recognized Obligation to Return Collateral Asset	Amount	% of Liability to Total Liabilities	Amount	% of Liability to Total Liabilities
Amounts payable under securities lending agreements	$ 675	0.5%	$ 600	0.5%
Other liabilities (derivatives)	398	0.3	253	0.2
Separate accounts liabilities (derivatives)	2	—	11	—
Total	$ 1,075	0.8%	$ 864	0.7%

NOTE 7 - DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative instruments to manage interest rate, equity, and currency risk. These derivative instruments include foreign currency forwards, interest rate and equity options, interest rate futures, interest rate, and foreign currency swaps. The Company does not engage in derivative instrument transactions for speculative purposes.

The Company may enter into exchange-traded futures and over-the-counter ("OTC") derivative instruments. Exchange traded derivatives are executed through regulated exchanges and require initial and daily variation margin collateral postings. The Company is exposed to credit risk resulting from default of the exchange.

OTC derivatives may either be cleared through a clearinghouse ("OTC-cleared") or transacted between the Company and a counterparty under bilateral agreements ("OTC-bilateral"). Similar to exchange traded futures when the company enters into, OTC-cleared derivatives it becomes subject to initial and daily variation margin collateral postings. When transacting OTC-cleared derivatives, the Company is exposed to credit risk resulting from default of the clearinghouse and/or default of the Futures Commission Merchant (e.g. clearinghouse agent).

When transacting OTC-bilateral derivatives, the Company is exposed to the potential default of its OTC-bilateral counterparty. The Company deals with a large number of highly rated OTC-bilateral counterparties, thus limiting its exposure to any single counterparty. The Company has controls in place to monitor credit exposures of OTC-bilateral counterparties by limiting transactions within specified dollar limits and continuously assessing the creditworthiness of its counterparties. The Company uses master netting agreements and adjusts transaction levels, when appropriate, to minimize risk. The Company's policy is to not offset amounts recognized on the accompanying Statutory Statements of Financial Position for derivatives executed with the same counterparty under the same master netting agreement with the associated collateral.

Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral where appropriate. All of the net credit exposure for the Company from derivative contracts is with investment-grade counterparties. For OTC-cleared and exchange traded derivatives, the Company obtains collateral through variation margin which is adjusted daily based on the parties' net derivative position.

For OTC-bilateral derivatives, the Company obtains collateral in accordance with the terms of credit support annexes ("CSAs") negotiated as part of the master agreements entered into with most OTC-bilateral counterparties. The CSA defines the terms under which collateral is transferred between the parties in order to mitigate credit risk arising from "in the money" derivative positions. The CSA requires that an OTC-bilateral counterparty post collateral to secure its anticipated derivative obligation, taking into account netting arrangements. In a few cases, these CSAs provide that the counterparties are not required to post collateral below a specified threshold; however the agreements governing these bilateral relationships also include credit contingent provisions whereby the threshold declines on a sliding scale with declines in the OTC-bilateral counterparties' ratings. In addition, certain of the Company's contracts require that if the Company's (or its counterparty's) credit rating were to fall below a specified rating assigned by a credit rating agency, the other party could request immediate payout on all transactions under the contracts or full collateralization of the positions thereunder. Cash collateral is invested in short-term investments. The aggregate fair value of all OTC-bilateral derivative instruments with credit-risk-related contingent features that are in a net liability position at December 31, 2016 was $2 million, for which the Company has posted collateral with a fair value of $2 million. If the credit contingent features had been triggered at December 31, 2016, the Company estimates that it would not have had to post additional collateral for either a one notch downgrade in the Company's credit rating or for a downgrade that would trigger full collateralization.

The Company may be exposed to credit-related losses in the event that an OTC-bilateral counterparty fails to perform its obligations under its contractual terms. In contractual arrangements with OTC-bilateral, counterparties that do not include netting provisions in the event of default, credit exposure is limited to the positive fair value of derivatives at the reporting date. In contractual arrangements with OTC-bilateral counterparties that include netting provisions, in the event of default, credit exposure is limited to the net fair value, if positive, of all derivatives at the reporting date. At December 31, 2016, the Company held

collateral for derivatives of $408 million, including $10 million of securities. Fair value of derivatives in a net asset position, net of collateral, was $17 million at December 31, 2016.

Interest Rate Risk Management

The Company enters into various types of interest rate derivatives primarily to minimize exposure to fluctuations in interest rates on assets and liabilities held by the Company.

Interest rate swaps are used by the Company to hedge interest rate risk for individual and portfolios of assets. Interest rate swaps are agreements with other parties to exchange, at specified intervals, the difference between interest amounts calculated by reference to an agreed upon notional value. Generally, no cash is exchanged at the onset of the contract and no principal payments are made by either party. The Company does not act as an intermediary or broker in interest rate swaps.

Interest rate caps and swaptions are used by the Company to hedge disintermediation risk of increasing interest rates on policyholder liability obligations. Under these contracts, the Company will receive payments from counterparties when interest rates exceed an agreed upon strike price.

Interest rate (Treasury) futures are used by the Company to manage duration of the Company's fixed income portfolio. Interest rate futures are exchange traded contracts to buy or sell a bond at a specific price at a future date.

Interest rate corridor options are used by the Company to hedge the risk of increasing interest rates on policyholder liabilities. Under these contracts, the Company will receive payments from counterparties should an agreed upon interest rate level be reached and payments will continue to increase under the option contract until an agreed upon interest rate ceiling is reached.

Currency Risk Management

The primary purpose of the Company’s foreign currency hedging activities is to protect the value of foreign currency denominated assets from the risk of changes in foreign exchange rates.

Foreign currency swaps are agreements with other parties to exchange, at specified intervals, principal and interest in one currency for the same in another, at a fixed exchange rate, which is generally set at inception and calculated by reference to an agreed upon notional value. Generally, only principal payments are exchanged at the onset and the end of the contract.

Foreign currency forwards involve the exchange of foreign currencies at a specified future date and at a specified price. No cash is exchanged at the time the agreement is entered into.

Equity Risk Management

The Company purchases equity put options to minimize exposure to the equity risk associated with guarantees on certain underlying policyholder liabilities. There are upfront fees paid related to option contracts at the time the agreements are entered into.

Hedge Effectiveness

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge, including the item and risk that is being hedged, the derivative that is being used, and how effectiveness is assessed.

A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The Company formally assesses effectiveness of its hedging relationships both at hedge inception and on an ongoing basis in accordance with its risk management policy. The hedging relationship is considered highly effective if the changes in fair value or discounted cash flows of the hedging instrument are within 80-125% of the inverse changes in the fair value or discounted cash flows of the hedged item.

The Company discontinues hedge accounting prospectively if: (1) it is determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item, (2) the derivative expires or is sold, terminated, or exercised, (3) it is probable that the forecasted transaction for which the hedge was entered into will not occur, or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

The Company did not have any cash flow hedges of forecasted transactions except for cash flow hedges related to payments of variable interest on existing financial instruments, for the years ended December 31, 2016 and 2015.

The following tables present the notional amount, gross fair value and carrying value of derivative instruments that are qualifying and designated for hedge accounting, by type of hedge designation, and those that are not designated for hedge accounting at December 31, 2016 and 2015 (in millions):

		2016				
			Fair Value[2]		Carrying Value[3]	
Derivative type	Primary Risk Exposure	Notional Amount[1]	Asset	Liability	Asset	Liability
Derivatives qualifying and designated:						
Cash Flow Hedges:						
Foreign currency swaps	Currency	$ 68	$ 13	$ —	$ 13	$ —
Interest rate swaps	Interest	12	4	—	—	—
Total derivatives qualifying and designated		80	17	—	13	—
Derivatives not designated:						
Interest rate corridor options	Interest	7,505	6	—	6	—
Foreign currency forwards	Currency	114	5	—	5	—
Foreign currency swaps	Currency	2,287	325	7	325	7
Futures	Interest	8	—	—	—	—
Equity options	Equity	652	53	—	53	—
Interest rate caps	Interest	4,257	4	—	4	—
Interest rate swaps	Interest	3,287	28	29	28	29
Swaptions	Interest	3,129	6	—	6	—
Total derivatives not designated		21,239	427	36	427	36
Total derivatives		$ 21,319	$ 444	$ 36	$ 440	$ 36

1 Notional amount of derivative instruments provides a measure of involvement in these types of transactions and generally does not represent the amount exchanged between the parties engaged in the transaction.
2 For a discussion of valuation methods for derivative instruments refer to Note 9 - Fair Value Measurements.
3 The carrying value of derivatives in an asset position is reported within other investments and the carrying value of derivatives in a liability position is reported within other liabilities in the accompanying Statutory Statements of Financial Position.

Derivative type	Primary Risk Exposure	2015 Notional Amount[1]	2015 Fair Value[2] Asset	2015 Fair Value[2] Liability	2015 Carrying Value[3] Asset	2015 Carrying Value[3] Liability
Derivatives qualifying and designated:						
Cash Flow Hedges:						
Foreign currency swaps	Currency	$ 143	$ 31	$ —	$ 31	$ —
Interest rate swaps	Interest	37	7	—	—	—
Total derivatives qualifying and designated		180	38	—	31	—
Derivatives not designated:						
Interest rate corridor options	Interest	9,262	5	—	5	—
Equity options	Equity	779	51	—	51	—
Foreign currency forwards	Currency	27	2	—	2	—
Foreign currency swaps	Currency	1,870	194	4	194	4
Futures	Interest	4	—	—	—	—
Interest rate caps	Interest	7,936	3	—	3	—
Interest rate swaps	Interest	3,341	31	24	31	24
Swaptions	Interest	5,424	6	—	6	—
Total derivatives not designated		28,643	292	28	292	28
Total derivatives		$ 28,823	$ 330	$ 28	$ 323	$ 28

1 Notional amount of derivative instruments provides a measure of involvement in these types of transactions and generally does not represent the amount exchanged between the parties engaged in the transaction.
2 For a discussion of valuation methods for derivative instruments refer to Note 9 - Fair Value Measurements.
3 The carrying value of derivatives in an asset position is reported within other investments and the carrying value of derivatives in a liability position is reported within other liabilities in the accompanying Statutory Statements of Financial Position.

Cash Flow Hedges

The Company's cash flow hedges primarily include hedges of floating rate securities and foreign currency denominated assets. Derivative instruments used in cash flow hedges that meet criteria indicating that they are highly effective are valued and reported in a manner that is consistent with the hedged asset.

The Company designates and accounts for the following as qualified cash flow hedges*:* (1) interest rate swaps used to convert floating rate investments to fixed rate investments; (2) foreign currency swaps used to hedge the foreign currency cash flow exposure of foreign currency denominated investments.

The following table presents the effects of derivatives in cash flow hedging relationships for the years ended December 31, 2016 and 2015 (in millions):

Derivative Type	Gain (Loss) Recognized in Surplus[1] 2016	Gain (Loss) Recognized in Surplus[1] 2015	Gain (Loss) Recognized in Net Realized Capital Gains (Losses) 2016	Gain (Loss) Recognized in Net Realized Capital Gains (Losses) 2015	Gain (Loss) Recognized in Net Investment Income 2016	Gain (Loss) Recognized in Net Investment Income 2015
Foreign currency swaps	$ (16)	$ 23	10	$ —	$ 1	$ 2
Interest rate swaps	—	—	—	—	1	1
Total	$ (16)	$ 23	$ 10	$ —	$ 2	$ 3

1 The amount of gain (loss) recognized in surplus is reported as a change in net unrealized losses on investments in the accompanying Statutory Statements of Changes in Surplus.

Derivatives Not Designated

The following table provides the classification and amount of gains and losses on derivative instruments not designated for hedge accounting for the years ended December 31, 2016 and 2015 (in millions):

Derivative Type	Gain (Loss) Recognized in Surplus[1] 2016	Gain (Loss) Recognized in Surplus[1] 2015	Gain (Loss) Recognized in Net Realized Capital Gains (Losses) 2016	Gain (Loss) Recognized in Net Realized Capital Gains (Losses) 2015	Gain (Loss) Recognized in Net Investment Income 2016	Gain (Loss) Recognized in Net Investment Income 2015
Interest rate corridor options	$ 1	$ 2	$ —	$ —	$ (2)	$ (3)
Equity options	3	10	(6)	—	(10)	(13)
Foreign currency forwards	3	—	1	2	—	—
Foreign currency swaps	127	158	(9)	(7)	26	14
Futures	—	—	—	—	—	—
Interest rate caps	4	7	—	—	(4)	(9)
Interest rate swaps	(7)	16	—	—	21	22
Swaptions	8	9	—	—	(9)	(14)
Total	$ 139	$ 202	$ (14)	$ (5)	$ 22	$ (3)

1 The amount of gain (loss) recognized in surplus is reported as a change in net unrealized losses on investments in the accompanying Statutory Statements of Changes in Surplus.

NOTE 8 - SEPARATE ACCOUNTS

Separate Accounts Activity

The Company utilizes separate accounts to record and account for assets and liabilities for particular lines of business and/or transactions. The Company reported separate accounts assets and liabilities from the following product lines/transactions into separate accounts:

- Variable universal life (“VUL”) insurance products guaranteed
- VUL insurance products non-guaranteed
- Variable annuity (“VA”) products non-guaranteed
- Universal life (“UL”) insurance products guaranteed

In accordance with the domiciliary state procedures for approving items within the separate accounts, the separate accounts classification of the separate accounts listed above is subject to Section 2932 of the Delaware Insurance Code and the regulations there under. Assets of guaranteed separate accounts are invested in accordance with the provisions of Chapter 13 of the Delaware Insurance Code.

All items that were permitted for separate accounts reporting were supported by state statute.

The assets legally and not legally insulated from the general account at December 31, 2016 and 2015 are attributed to the following products/transactions (in millions):

	2016		2015	
Product/Transaction	**Legally Insulated Assets**	**Separate Accounts Assets (Not Legally Insulated)[1]**	**Legally Insulated Assets**	**Separate Accounts Assets (Not Legally Insulated)[2]**
VUL insurance products guaranteed	$ 249	$ 7	$ 245	$ 7
VUL insurance products non-guaranteed	6,482	2	6,152	(5)
VA products non-guaranteed	24,290	33	22,580	28
UL insurance products guaranteed	5,799	(4)	5,639	133
Total	$ 36,820	$ 38	$ 34,616	$ 163

1 Separate accounts assets classified as not legally insulated support $25 million of remittances and items not allocated and other transfers to the general account due or accrued (net), less than $1 million of payable for securities, $7 million of derivatives, $4 million of other liabilities and $1 million of surplus.

2 Separate accounts assets classified as not legally insulated support $70 million of remittances and items not allocated and other transfers to the general account due or accrued (net), $55 million of payable for securities, $17 million of derivatives, $18 million of other liabilities and $3 million of surplus.

Guaranteed Separate Accounts

The Company maintains four guaranteed separate accounts for universal life insurance policies and one guaranteed separate accounts for a private placement variable universal life policy, with assets of $6,051 million and $6,023 million at December 31, 2016 and 2015, respectively. These accounts provide a guarantee of principal and interest with a market value adjustment imposed upon certain surrenders. A transfer adjustment charge is imposed upon certain transfers. Interest rates on these contracts may be adjusted periodically. The assets of these separate accounts are stated at amortized cost up to the value of policyholder reserves and at fair value thereafter. Certain derivatives not qualifying for hedge accounting are stated at fair value.

Non-Guaranteed Separate Accounts

The Company maintains non-guaranteed separate accounts for its VA and VUL products, some of which are registered with the Securities and Exchange Commission. Assets in non-guaranteed separate accounts were $30,807 million and $28,755 million at December 31, 2016 and 2015, respectively. The assets of these separate accounts represent investments in shares of New York Life sponsored MainStay VP Series Funds Trust and other non-proprietary funds.

Certain of these variable contracts have guaranteed minimum death benefit ("GMDB") and guaranteed minimum accumulation benefit ("GMAB") features that are guaranteed by the assets of the general account.

At December 31, 2016 and 2015, the general account of the Company had a maximum guarantee for separate accounts liabilities as follows (in millions):

	2016	2015
GMDB	$ 220	$ 657
No Lapse Guarantees	88	92
GMAB	103	232
Enhanced Beneficiary Benefit	6	6
Guaranteed Future Income Benefit	1	5
Total	$ 418	$ 992

To compensate the general account for the risk taken, the separate accounts have paid risk charges as follows for the past five years (in millions):

Year	Amount
2016	$ 49
2015	$ 46
2014	$ 39
2013	$ 32
2012	$ 25

The general account of the Company had paid toward separate accounts guarantees as follows for the past five years (in millions):

Year	Amount
2016	$ 9
2015	$ 7
2014	$ 4
2013	$ 5
2012	$ 8

The general account holds reserves on these guarantees. Refer to Note 12 - Insurance Liabilities, for discussion of GMAB and GMDB reserves.

NOTE 8 - SEPARATE ACCOUNTS (continued)

Information regarding the separate accounts of the Company for the years ended December 31, 2016 and 2015 is as follows (in millions):

	2016			
	Non-Indexed Guarantee Less than / Equal to 4%	Non-Indexed Guarantee More than 4%	Non-Guaranteed Separate Accounts	Total
Premiums, considerations or deposits	$ 64	$ —	$ 1,413	$ 1,477
Reserves at 12/31:				
For accounts with assets at:				
Fair value	$ —	$ —	$ 29,869	$ 29,869
Amortized cost	5,570	467	—	6,037
Total reserves	$ 5,570	$ 467	$ 29,869	$ 35,906
By withdrawal characteristics:				
With fair value adjustment	$ 5,570	$ 467	$ —	$ 6,037
At fair value	—	—	29,869	29,869
Total reserves	$ 5,570	$ 467	$ 29,869	$ 35,906

	2015			
	Non-Indexed Guarantee Less than / Equal to 4%	Non-Indexed Guarantee More than 4%	Non-Guaranteed Separate Accounts	Total
Premiums, considerations or deposits	$ 297	$ —	$ 1,858	$ 2,155
Reserves at 12/31:				
For accounts with assets at:				
Fair value	$ —	$ —	$ 27,864	$ 27,864
Amortized cost	5,417	457	—	5,874
Total reserves	$ 5,417	$ 457	$ 27,864	$ 33,738
By withdrawal characteristics:				
With fair value adjustment	$ 5,417	$ 457	$ —	$ 5,874
At fair value	—	—	27,864	27,864
Total reserves	$ 5,417	$ 457	$ 27,864	$ 33,738

NOTE 8 - SEPARATE ACCOUNTS (continued)

The following is a reconciliation of net transfers from the general account to the separate accounts (in millions):

	2016	2015
Transfers as reported in the Separate Accounts Statement:		
Transfers to separate accounts	$ 1,477	$ 2,155
Transfers from separate accounts	(1,176)	(736)
Net transfers to separate accounts	301	1,419
Reconciling adjustment:		
Reinsurance ceded	(4)	(6)
Net transfers as reported on the Company's Statutory Statements of Operations	$ 297	$ 1,413

NOTE 9 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

Determination of Fair Value

The Company has an established and well-documented process for determining fair value. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from nationally recognized third-party pricing services. For most private placement securities, the Company applies a matrix-based pricing methodology, which uses spreads derived from third-party benchmark bond indices. For private placement securities that cannot be priced through these processes, the Company uses internal models and calculations. All other securities are submitted to independent brokers for prices. The Company performs various analyses to ascertain that the prices represent fair value. Examples of procedures performed include, but are not limited to, back testing recent trades, monitoring trading volumes, and performing variance analysis of monthly price changes using different thresholds based on asset type. The Company also performs an annual review of all third-party pricing services. During this review, the Company obtains an understanding of the process and sources used by the pricing service to ensure that they maximize the use of observable inputs, the pricing service's frequency of updating prices, and the controls that the pricing service uses to ensure that their prices reflect market assumptions. The Company also selects a sample of securities and obtains a more detailed understanding from each pricing service regarding how they derived the price assigned to each security. Where inputs or prices do not reflect market participant assumptions, the Company will challenge these prices and apply different methodologies that will enhance the use of observable inputs and data. The Company may use non-binding broker quotes or internal valuations to support the fair value of securities that go through this formal price challenge process.

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

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

The following tables present the carrying amounts and estimated fair value of the Company's financial instruments at December 31, 2016 and 2015 (in millions):

	2016					
	Fair Value	Carrying Value	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 79,240	$ 77,313	$ —	$ 76,128	$ 3,112	$ —
Preferred stocks	14	11	—	—	14	—
Common stocks[1]	1,079	1,079	1,046	5	28	—
Mortgage loans	13,209	12,984	—	—	13,209	—
Cash, cash equivalents and short-term investments	1,923	1,923	12	1,911	—	—
Derivatives	444	440	—	429	15	—
Derivatives - collateral	2	2	—	2	—	—
Other invested assets[1]	245	203	—	63	182	—
Collateralized third-party commercial loans	7	7	—	—	7	—
Investment income due and accrued	653	653	—	653	—	—
Separate accounts assets	36,978	36,827	30,481	5,456	1,041	—
Separate accounts assets - derivatives	29	24	—	15	14	—
Separate accounts assets - collateral	7	7	—	7	—	—
Total assets	$ 133,830	$ 131,473	$ 31,539	$ 84,669	$ 17,622	$ —
Liabilities:						
Annuities certain	$ 817	$ 790	$ —	$ —	$ 817	$ —
Derivatives	36	36	—	36	—	—
Derivatives - collateral	398	398	—	398	—	—
Amounts payable under securities lending	675	675	—	675	—	—
Separate accounts liabilities - collateral	2	2	—	2	—	—
Separate accounts liabilities - derivatives	7	5	—	5	2	—
Total liabilities	$ 1,935	$ 1,906	$ —	$ 1,116	$ 819	$ —

[1]Excludes investments accounted for under the equity method.

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

	2015					
	Fair Value	Carrying Value	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 73,410	$ 71,792	$ —	$ 70,346	$ 3,064	$ —
Preferred stocks	5	5	—	—	5	—
Common stocks[1]	463	463	437	—	26	—
Mortgage loans	12,433	12,097	—	—	12,433	—
Cash, cash equivalents and short-term investments	2,291	2,291	7	2,284	—	—
Derivatives	330	323	—	330	—	—
Other invested assets[1]	260	228		29	231	—
Collateralized third-party commercial loans	11	11	—	—	11	—
Investment income due and accrued	613	613	—	613	—	—
Separate accounts assets	34,904	34,751	28,341	5,530	1,033	—
Separate accounts liabilities - derivatives	19	21	—	22	(3)	—
Separate accounts liabilities - collateral	7	7	—	7	—	—
Total assets	$ 124,746	$ 122,602	$ 28,785	$ 79,161	$ 16,800	$ —
Liabilities:						
Annuities certain	$ 716	$ 692	$ —	$ —	$ 716	$ —
Derivatives	28	28	—	28	—	—
Derivatives - collateral	253	253	—	253	—	—
Amounts payable under securities lending	600	600	—	600	—	—
Separate accounts liabilities - collateral	11	11	—	11	—	—
Separate accounts liabilities - derivatives	6	6	—	6	—	—
Total liabilities	$ 1,614	$ 1,590	$ —	$ 898	$ 716	$ —

[1]Excludes investments accounted for under the equity method.

Bonds

Bonds reported as Level 1 represent investments in certain exchange traded funds, which are allowed to be reported as bonds per the SVO instructions. These assets are priced based on unadjusted quoted prices in an active market. Securities priced using a pricing service are generally classified as Level 2. The pricing service generally uses a discounted cash-flow model or market approach to determine fair value on public securities. Typical inputs used by these pricing services include, but are not limited to: benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds.

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

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

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

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

Included in bonds is an affiliated bond from MCF with a carrying value of $1,780 million and a fair value of $1,816 million. The fair value of this security is calculated internally and may include inputs that may not be observable. Therefore, this security is classified as Level 3.

Preferred Stocks

Preferred stocks are mostly valued based on internal valuations, where significant inputs are deemed to be unobservable and therefore, are classified as Level 3.

Common Stocks

These securities are mostly comprised of exchange traded U.S. and foreign common stock and mutual funds. The fair value of these securities is primarily based on unadjusted quoted prices in active markets that are readily and regularly available and are classified as Level 1. Common stocks priced through an internal valuation where significant inputs are deemed to be unobservable, including securities issued by government organizations where fair value is fixed, are classified as Level 3.

Mortgage Loans

The estimated fair value of mortgage loans is determined based upon the present value of the expected cash flows discounted at an interpolated treasury yield plus a spread. The spread is based on management's judgment and assumptions and it takes into account property type, LTV and remaining term of each loan. The spread is a significant component of the pricing inputs. These investments are classified as Level 3.

Cash, Cash Equivalents, Short-term Investments and Investment Income Due and Accrued

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

Derivatives

The fair value of derivative instruments is generally derived using valuation models, except for derivatives that are exchange-traded, which are valued using quoted prices in an active market. Where valuation models are used, the selection of a particular model depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation model inputs include contractual terms, yield curves, foreign exchange rates, equity prices, credit curves, measures of volatility, and other factors. Exchange traded derivatives are classified as Level 1. OTC derivatives that trade in liquid markets, where model inputs are observable for substantially the full term, are classified as Level 2. Derivatives that are valued based upon models with any significant unobservable market inputs or inputs from less actively traded markets, or where the fair value is solely derived using broker quotations, are classified as Level 3.

Derivatives - Collateral

The carrying value of these instruments approximates fair value since these assets and liabilities are generally short-term in nature.

Other Invested Assets

Other invested assets are principally comprised of LIHTC investments and other investments with characteristics of debt. The fair value of LIHTC investments is based on a discounted cash flow calculation using a discount rate that is determined internally and therefore classified as Level 3 (refer to Note 6 - Investments, for details on LIHTC investments). The fair value of the investments with debt characteristics is based on discounted cash flow calculations that may or may not use observable inputs.

Separate Accounts Assets

Separate accounts assets reported as Level 1 in the fair value hierarchy are mostly comprised of exchange traded funds, common stocks and actively traded open-end mutual funds with a daily net asset value (“NAV”). The NAV can be observed by redemption and subscription transactions between third parties, or may be obtained from third-party asset managers. Common stocks are generally traded on an exchange. Separate accounts assets reported as Level 2 relate to investments in U.S. government and treasury securities, corporate bonds and mortgage-backed securities. These separate accounts assets are valued and assigned within the fair value hierarchy, consistent with the methodologies described herein for similar financial instruments held within the general account of the Company.

The separate accounts also invest in limited partnerships and hedge fund investments. These investments are valued based on the latest NAV received. When the hedge fund can be redeemed at NAV, at the measurement date, or in the near-term (90 days or less) it is classified as Level 2. The following table provides further information about the Level 2 hedge funds in which the separate accounts invest in (in millions):

Category of Investment	Investment Strategy	Fair Value at 12/31/16	Unfunded Commitments at 12/31/2016	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 123	$ —	Quarterly, Monthly	90 days or less
Hedge Fund	Sector Investing	$ 23	$ —	Monthly	90 days or less
Hedge Fund	Long/Short Equity	$ 2	$ —	Monthly	90 days or less

Category of Investment	Investment Strategy	Fair Value at 12/31/15	Unfunded Commitments at 12/31/2015	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 132	$ —	Quarterly, Monthly	90 days or less
Hedge Fund	Sector Investing	$ 23	$ —	Quarterly, Monthly	90 days or less
Hedge Fund	Long/Short Equity	$ 2	$ —	Quarterly, Monthly	90 days or less

Limited partnership and hedge fund investments that are restricted with respect to transfer or withdrawal of greater than 90 days are classified as Level 3. The following table provides further information about these investments (in millions):

Category of Investment	Investment Strategy	Fair Value at 12/31/16	Unfunded Commitments 12/31/16	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 214	$ —	Annual, Semi-annual, Quarterly	More than 90 days

Category of Investment	Investment Strategy	Fair Value at 12/31/15	Unfunded Commitments 12/31/15	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 273	$ —	Annual, Semi-annual, Quarterly	More than 90 days

Deposit Fund Contracts

Fair values for annuities certain liabilities are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

Borrowed Money

Borrowed money consists of a financing arrangement. The carrying value of the financing arrangement approximates fair value.

Amounts Payable Under Securities Lending

Amounts due under securities lending consists of cash collateral received under securities lending agreements. Due to the short-term nature of the transactions, the carrying value approximates fair value.

Separate Accounts Liabilities – Derivatives

For separate accounts derivative instruments, fair value is determined using the same procedures as the general account disclosed above.

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

The following tables represent the balances of assets and liabilities measured at fair value at December 31, 2016 and 2015 (in millions):

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets at fair value				
Bonds				
U.S. corporate	$ —	$ 5	$ —	$ 5
Non-agency commercial mortgage-backed securities	—	2	—	2
Non-agency residential mortgage-backed securities	—	—	—	—
Non-agency asset-backed securities	—	5	2	7
Total bonds	—	12	2	14
Common stocks	1,046	5	28	1,079
Derivative assets				
Foreign currency swaps	—	325	—	325
Equity options	—	53	—	53
Interest rate swaps	—	28	—	28
Swaptions	—	—	6	6
Interest rate caps	—	—	3	3
Foreign currency forwards	—	5	—	5
Corridor options	—	—	6	6
Total derivatives assets	—	411	15	426
Separate accounts assets	30,444	150	223	30,817
Total assets at fair value	$ 31,490	$ 578	$ 268	$ 32,336
Liabilities at fair value				
Derivative liabilities				
Interest rate swaps	$ —	$ 29	$ —	$ 29
Foreign currency swaps	—	7	—	7
Total derivative liabilities	—	36	—	36
Separate accounts liabilities - derivatives[1]	—	5	—	5
Total liabilities at fair value	$ —	$ 41	$ —	$ 41

[1] Separate accounts contract holder liabilities are not included in the table as they are reported at contract value and not fair value in the Company's statutory financial statements.

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

	2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets at fair value				
Bonds				
U.S. corporate	$ —	$ 5	$ —	$ 5
Non-agency residential mortgage-backed securities	—	—	1	1
Non-agency asset-backed securities	—	—	2	2
Total bonds	—	5	3	8
Common stocks	436	—	26	462
Derivative assets				
Foreign currency swaps	—	194	—	194
Equity options	—	51	—	51
Interest rate swaps	—	31	—	31
Swaptions	—	6	—	6
Foreign currency forwards	—	2	—	2
Corridor options	—	3	—	3
Interest rate caps	—	5	—	5
Total derivatives assets	—	292	—	292
Separate accounts assets	28,325	170	273	28,768
Total assets at fair value	$ 28,761	$ 467	$ 302	$ 29,530
Liabilities at fair value				
Derivative liabilities				
Interest rate swaps	$ —	$ 24	$ —	$ 24
Foreign currency swaps	—	4	—	4
Total derivative liabilities	—	28	—	28
Separate accounts liabilities - derivatives[1]	—	6	—	6
Total liabilities at fair value	$ —	$ 34	$ —	$ 34

[1] Separate accounts contract holder liabilities are not included in the table as they are reported at contract value and not fair value in the Company's statutory financial statements.

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

The tables below present a reconciliation of Level 3 assets and liabilities for the years ended December 31, 2016 and 2015 (in millions):

	2016									
	Balance at 1/1/2016	Transfers into Level 3	Transfers out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Balance at 12/31/2016
Bonds:										
Non-agency residential mortgage-backed securities	$ 1	$ —	$ (1)	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-agency asset-backed securities	2	—	—	—	—	—	—	—	—	2
Total bonds	3	—	(1)	—	—	—	—	—	—	2
Common stocks	26	—	—	—	—	2	—	—	—	28
Derivatives:										
Interest rate caps	—	3		(4)	4	—	—	—	—	3
Corridor options	—	5		(1)	1	1	—	—	—	6
Swaptions	—	7		(9)	8	—	—	—	—	6
Total Derivatives	—	15	—	(14)	13	1	—	—	—	15
Separate accounts assets[1]	273	9	—	14	(10)	6	—	(69)	—	223
Total	$ 302	$ 24	$ (1)	$ —	$ 3	$ 9	$ —	$ (69)	$ —	$ 268

[1] The total gains (losses) in surplus for separate accounts assets are offset by an equal amount for separate accounts liabilities, which results in a net zero impact on surplus for the Company.

	2015									
	Balance at 1/1/2015	Transfers into Level 3	Transfers out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Balance at 12/31/2015
Bonds:										
Non-agency residential mortgage-backed securities	$ —	$ 1	—	$ —	$ —	$ —	$ —	$ —	$ —	$ 1
Non-agency asset-backed securities	4	—	(2)	—	1	—	—	—	(1)	2
Total bonds	4	1	(2)	—	1	—	—	—	(1)	3
Common stocks	2	—	—	—	(1)	26	—	—	(1)	26
Separate accounts assets[1]	259	—	—	3	6	15	—	(10)	—	273
Total	$ 265	$ 1	$ (2)	$ 3	$ 6	$ 41	$ —	$ (10)	$ (2)	$ 302

[1] The total gains (losses) in surplus for separate accounts assets are offset by an equal amount for separate accounts liabilities, which results in a net zero impact on surplus for the Company.

Transfers Between Levels

Transfers between levels may occur due to changes in valuation sources, or changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads or as a result of a security measured at amortized cost at the beginning of the period, but measured at estimated fair value at the end of the period, or vice versa due to a ratings downgrade or upgrade. For the separate accounts, transfers are mostly related to changes in the redemption restrictions of limited partnerships and hedge fund investments. The Company's policy is to assume the transfer occurs at the beginning of the period.

Transfers between Levels 1 and 2

During the years ended December 31, 2016 and 2015, there were no transfers between Levels 1 and 2.

Transfers into and out of Level 3

The Company's basis for transferring assets and liabilities into and out of Level 3 is based on changes in the observability of data, a change in the security's measurement, or changes in redemption restrictions of certain separate accounts investments.

Transfers into level 3 totaled $24 million for the year ended December 31, 2016, which primarily relates to $15 million of interest rate options that moved from Level 2 to Level 3 due to the limited market observability on certain inputs used in the valuation model. Transfers out of level 3 totaled $1 million, which includes non-agency RMBS securities that were measured at fair market value at the beginning of the period and measured at amortized cost at the end of the period.

NOTE 9 - FAIR VALUE MEASUREMENTS (continued)

The table below presents the balances of Level 3 assets measured at fair value with their corresponding pricing sources at December 31, 2016 and 2015 (in millions):

	2016		
	Internal [1]	External [2]	Total
Assets at fair value			
Bonds:			
Non-agency residential mortgage-backed securities	$ —	$ —	$ —
Non-agency asset-backed securities	—	2	2
Total bonds	—	2	2
Common stocks	27	1	28
Derivative assets	—	15	15
Separate accounts assets	—	223	223
Total assets at fair value	$ 27	$ 241	$ 268

[1] Represents valuations reflecting both internally derived and market inputs, as well as third-party pricing inputs that are deemed to be unobservable. See below for additional information related to internally-developed valuation for significant items in the above table.
[2] Primarily represents independent non-binding broker quotes where pricing inputs are not readily available as well as investments in limited partnerships and hedge funds of the Separate accounts.

	2015		
	Internal [1]	External [2]	Total
Assets at fair value			
Bonds:			
Non-agency residential mortgage-backed securities	$ —	$ 1	$ 1
Non-agency asset-backed securities	—	2	2
Total bonds	—	3	3
Common stocks	26	—	26
Separate accounts assets	—	273	273
Total assets at fair value	$ 26	$ 276	$ 302

[1] Represents valuations reflecting both internally derived and market inputs, as well as third-party pricing inputs that are deemed to be unobservable. See below for additional information related to internally-developed valuation for significant items in the above table.
[2] Primarily represents independent non-binding broker quotes where pricing inputs are not readily available as well as investments in limited partnerships and hedge funds of the Separate accounts.

There were no liabilities measured at fair value at December 31, 2016 and 2015.

The tables below present quantitative information on significant internally priced Level 3 assets at December 31, 2016 and 2015 (in millions):

	2016			
	Fair Value (in millions)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets:				
Common stocks	$ 27	FHLB of Pittsburgh stock		
		Market comparable	Price to book multiple	0.6X
		Market comparable	Revenue multiple	9.5X

	2015			
	Fair Value (in millions)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets:				
Common stocks	$ 26	FHLB of Pittsburgh		
		Market comparable	Price to book multiple	0.7X

The following is a description of the sensitivity to changes in unobservable inputs of the estimated fair value of the Company's Level 3 assets included above, for which we have access to the valuation inputs, as well as the sensitivity to changes in unobservable inputs of the Level 3 assets that are valued based on external pricing information.

Common Stocks

The Company's Level 3 common stock investments mostly relate to the Company's holdings in the FHLB of Pittsburgh as described in Note 15 - Commitments and Contingencies. As prescribed in the FHLB of Pittsburgh capital plan, the par value of the capital stock is $100 and all capital stock is issued, redeemed, repurchased or transferred at par value. Since there is not an observable market for the FHLB of Pittsburgh stock, these securities have been classified as Level 3. For the other common stock investments included in Level 3, the valuation is performed using market comparables such as price to book multiples. An increase in the value of these inputs would result in an increase in fair value with the reverse being true for decreases in the value of these inputs.

NOTE 10 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2016 and 2015 were as follows (in millions):

	2016	2015
Bonds	$ 3,099	$ 2,940
Mortgage loans	559	519
Common stocks - unaffiliated	23	18
Real estate	4	4
Limited partnerships and LIHTC Investments	(10)	(17)
Affiliated subsidiaries	56	—
Policy loans	57	57
Other invested assets	6	111
Short-term investments	11	1
Derivative instruments	24	—
Other	10	8
Gross investment income	3,839	3,641
Investment expenses	(132)	(125)
Net investment income	3,707	3,516
Net gain from separate accounts	37	35
Amortization of IMR	51	81
Net investment income including IMR	$ 3,795	$ 3,632

Due and accrued investment income is excluded from surplus when amounts are over 90 days past due or collection is uncertain.

NOTE 10 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

For the years ended December 31, 2016 and 2015, realized capital gains and losses on sales including OTTI were as follows (in millions):

	2016		2015	
	Gains	Losses	Gains	Losses
Bonds	$ 109	$ 179	$ 190	$ 126
Mortgage loans	—	—	—	—
Common stocks - unaffiliated	40	42	75	87
Other long-term investments	2	39	7	14
Derivative instruments	28	32	10	14
Other	3	—	—	—
	$ 182	$ 292	$ 282	$ 241
Net realized capital gains before tax and transfers to the IMR	$ (110)		$ 41	
Less:				
Capital gains tax expense	(21)		33	
Net realized capital gains after tax transferred to IMR	23		87	
Net realized capital gains (losses) after tax and transfers to the IMR	$ (112)		$ (79)	

Proceeds from investments in bonds sold were $3,236 million and $3,801 million for the years ended December 31, 2016 and 2015, respectively. Gross gains of $84 million and $111 million in 2016 and 2015, respectively, and gross losses of $39 million and $18 million in 2016 and 2015, respectively, were realized on these sales. The Company computes gains and losses on sales under the specific identification method.

The following table provides a summary of OTTI losses included as realized capital losses for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Bonds	$ 106	$ 93
Other long-term investments	39	13
Common and preferred stocks	5	4
Total	$ 150	$ 110

Refer to Note 20 - Loan-Backed and Structured Security Impairments for a list with each loan-backed and structured security at a CUSIP level where the present value of cash flows expected to be collected is less than the amortized cost basis during the current reporting period.

NOTE 10 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

The following tables present the Company's gross unrealized losses and fair values for bonds and equities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015 (in millions):

	2016					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses[1]
Bonds:						
U.S. Treasury	$ 1,103	$ 26	$ —	$ —	$ 1,103	$ 26
U.S. government corporations and agencies	217	12	—	—	217	12
U.S. agency mortgage and asset-backed securities	4,782	203	279	19	5,061	222
Foreign governments	45	1	—	—	45	1
U.S. corporate	8,850	333	1,319	70	10,169	403
Foreign corporate	2,273	52	464	22	2,737	74
Non-agency residential mortgage-backed securities	86	2	274	14	360	16
Non-agency commercial mortgage-backed securities	1,759	57	300	15	2,059	72
Non-agency asset-backed securities	2,237	47	1,184	25	3,421	72
Total bonds	21,352	733	3,820	165	25,172	898
Equity securities (unaffiliated):						
Common stocks	214	16	8	1	222	17
Preferred stocks	—	—	3	—	3	—
Total equity securities	214	16	11	1	225	17
Total	$ 21,566	$ 749	$ 3,831	$ 166	$ 25,397	$ 915

[1]Includes unrealized losses of $3 million related to NAIC 6 bonds included in the statutory carrying amount.

NOTE 10 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

	2015					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses[1]
Bonds:						
U.S. Treasury	$ 524	$ 3	$ —	$ —	$ 524	$ 3
U.S. government corporations and agencies	—	—	25	1	25	1
U.S. agency mortgage and asset-backed securities	1,511	41	964	44	2,475	85
Foreign governments	3	—	—	—	3	—
U.S. corporate	10,352	531	1,307	86	11,659	617
Foreign corporate	4,041	227	421	49	4,462	276
Non-agency residential mortgage-backed securities	146	3	354	21	500	24
Non-agency commercial mortgage-backed securities	1,786	29	190	3	1,976	32
Non-agency asset-backed securities	3,262	48	786	24	4,048	72
Total bonds	21,625	882	4,047	228	25,672	1,110
Equity securities (unaffiliated):						
Common stocks	221	19	1		222	19
Total	$ 21,846	$ 901	$ 4,048	$ 228	$ 25,894	$ 1,129

[1]Includes unrealized losses of $3 million related to NAIC 6 bonds included in the statutory carrying amount.

At December 31, 2016, the gross unrealized loss on bonds and equity securities was comprised of approximately 3,153 and 327 different securities, respectively, which are included in the table above. Of the total amount of bond unrealized losses, $809 million or 90% is related to unrealized losses on investment grade securities and $89 million or 10% is related to below investment grade securities. At December 31, 2015, the gross unrealized loss on bonds and equity securities was comprised of approximately 3,225 and 403 different securities, respectively, which are included in the table above. Of the total amount of bond unrealized losses, $820 million, or 74%, is related to investment grade securities and $290 million, or 26%, is related to below investment grade securities. Investment grade is defined as a security having a credit rating from the NAIC of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's; or a comparable internal rating if an externally provided rating is not available.

The amount of gross unrealized losses for bonds where fair value had declined by 20% or more of the amortized cost, totaled $44 million. The period of time that each of these securities has continuously been below amortized cost by 20% or more consists of $25 million for six months or less, $1 million for greater than six months through 12 months, and $18 million for greater than 12 months. In accordance with the Company's impairment policy, the Company performed quantitative and qualitative analysis to determine if the decline was temporary. 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.

NOTE 10 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

The change in unrealized capital gain (losses) for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Change in unrealized capital gains (losses) on investments:		
Bonds	$ —	$ —
Common stock (unaffiliated)	56	(33)
Common stock (affiliated)	—	9
Mortgage loans	—	1
Derivative instruments	124	224
Other invested assets	45	(28)
Total change in unrealized capital gains on investments	$ 225	$ 173
Change in unrealized foreign exchange capital gains (losses) on investments:		
Bonds	$ (189)	$ (134)
Common stock (unaffiliated)	(10)	13
Common stock (affiliated)	—	(2)
Cash, cash equivalents and short-term investments	5	3
Other invested assets	—	(4)
Total change in unrealized foreign exchange capital losses on investments	(194)	(124)
Capital gains tax	1	(21)
Total change in unrealized capital gains, net of tax	$ 32	$ 28

NOTE 11 - RELATED PARTY TRANSACTIONS

During 2016, the Company received a dividend distribution from MCF of $56 million.

The Company's interests in commercial mortgage loans (and, in one instance, a single asset real estate owned property acquired through foreclosure (“REO Property”)) are held in the form of participations in mortgages originated or acquired by New York Life (and, in case of the REO Property, a participation in the ownership of the REO Property (“REO Ownership Interest”)). During 2015, the Company's REO Ownership Interest was purchased by New York Life. Under the participation agreement for the mortgage loans, it is agreed between the Company and New York Life that the Company's proportionate interest (as evidenced by a participation certificate) in the underlying mortgage, including without limitation, the principal balance thereof, all interest which accrues thereon, and all proceeds generated therefrom, will be pari passu with New York Life's and pro rata based upon the respective amounts funded by New York Life and the Company in connection with the applicable mortgage origination or acquisition. Consistent with the participation arrangement, all mortgage documents name New York Life (and not both New York Life and the Company) as the lender but are held for the benefit of both the Company and New York Life pursuant to the applicable participation agreement. New York Life retains general decision making authority with respect to each mortgage loan, although certain decisions require the Company's approval.

Prior to December 31, 2015, the Company had entered into a revolving loan agreement with MCF, which was a wholly-owned subsidiary of NYL Investments (as amended from time to time, the “MCF Loan Agreement”). At December 31, 2015, all outstanding advances made to MCF under the MCF Loan Agreement, together with unpaid interest or accrued return thereon, were paid in full and the agreement was terminated. Under this agreement, the Company provided funding to MCF for lending and equity investment commitments entered into by MCF on or after January 1, 2010. The aggregate amount advanced by the Company to MCF under the MCF Loan Agreement, when aggregated with all other funding provided to or on behalf of MCF by the Company, could not exceed 2.75% of the Company’s statutory cash and invested assets as stated on the Company’s most recent quarterly statements. All outstanding advances made to MCF under the MCF Loan Agreement, together with unpaid interest or accrued return thereon, were due in full on July 1, 2025. During 2015, the Company recorded interest payments from MCF under the MCF Loan Agreement of $100 million.

On December 31, 2015, the Company entered into a note funding agreement with MCF and New York Life (the “MCF Note Agreement”) and acquired a variable funding note issued by MCF thereunder (the “Note”). The Note, which is reported as a bond, had an outstanding balance for the Company of $1,780 million and $1,707 million at December 31, 2016 and 2015, respectively. During 2016, the Company recorded interest income from MCF under the MCF Note Agreement of $75 million. Pursuant to the MCF Note Agreement and variable funding note issued thereunder, the Company and New York Life may provide an aggregate of up to $4,700 million in funding to MCF for lending and equity investment commitments, as well as for business expenses. All outstanding advances made to MCF under the MCF Note Agreement, together with unpaid interest thereon, will be due in full on December 31, 2025.

In connection with the acquisition of an office building by REEP-OFC Westory DC, LLC, an indirectly wholly-owned subsidiary of New York Life, the Company provided a first mortgage loan in the principal amount of $83 million to REEP-OFC Westory DC LLC. The mortgage loan is interest-only throughout the term, and all outstanding principal shall be due and payable on August 10, 2022. For each of the years ended December 31, 2016 and 2015, interest earned amounted to approximately $3 million.

In connection with a $150 million acquisition of a leased fee interest containing an office building and related improvements and encumbered by a ground lease by New York Life (73.8% interest) and the Company

(26.2% interest), the Company and New York Life entered into a Tenancy-in-Common Agreement dated as of June 11, 2012 which agreement sets forth the terms that govern, in part, each entity's interest in the property. For each of the years ended December 31, 2016 and 2015, income earned amounted to approximately $3 million.

The Company sold various corporate owned life insurance ("COLI") policies to New York Life for the purpose of informally funding certain benefits for New York Life employees and agents. These policies were issued on the same terms as policies sold to unrelated customers. At December 31, 2016 and 2015, policyholder reserve balances for these policies amounted to $3,729 million and $3,592 million, respectively, and were included in the policy reserves and separate accounts liabilities in the accompanying Statutory Statements of Financial Position.

The Company has also issued various COLI policies to the Voluntary Employees' Beneficiary Association ("VEBA") trusts, which were trusts formed for the benefit of New York Life's retired employees and agents. At December 31, 2016 and 2015, policyholder reserve balances for these policies amounted to approximately $364 million and $354 million, respectively, and were included in policy reserves and separate accounts liabilities in the accompanying Statutory Statements of Financial Position.

The Company is the assumed obligor for certain structured settlement agreements with unaffiliated insurance companies, beneficiaries and other non-affiliated entities. To satisfy its obligations under these agreements, the Company owns all rights, title and interest in and to certain structured settlement annuity contracts issued by New York Life. The obligations are based upon the actuarially determined present value of expected future payments. Interest rates used in establishing such obligations ranged from 3.5% to 7.75%. The Company has directed New York Life to make the payments under the annuity contracts directly to the beneficiaries under the structured settlement agreements. At December 31, 2016 and 2015, the carrying value of the interest in annuity contracts and the corresponding obligations under structured settlement agreements amounted to $7,448 million and $7,108 million, respectively.

The Company has sold certain annuity contracts to New York Life in order that New York Life may satisfy its third-party obligations under certain structured settlement agreements. Interest rates used in establishing such obligations ranged from 5.5% to 8.75%. The Company has been directed by New York Life to make the payments under the annuity contracts directly to the beneficiaries under these structured settlement agreements. At December 31, 2016 and 2015, the policyholder reserves related to these contracts amounted to $149 million and $148 million, and are included in policy reserves in the accompanying Statutory Statements of Financial Position.

The Company was compensated for each New York Life term policy or term rider that was converted to a universal life policy issued by the Company without any additional underwriting. For the years ended December 31, 2016 and 2015, the Company received $23 million and $41 million, respectively from New York Life for these services.

New York Life provides the Company with certain services and facilities including, but not limited to, accounting, tax and auditing services; legal services; actuarial services; electronic data processing operations and communications operations. New York Life charges the Company for the identified costs associated with these services and facilities under the terms of a service agreement between New York Life and the Company. For the years ended December 31, 2016 and 2015, the fees incurred associated with these services and facilities, amounted to $820 million and $823 million, respectively, and are reflected in operating expenses and net investment income in the accompanying Statutory Statements of Operations.

New York Life Investment Management LLC ("NYLIM"), an indirect wholly-owned subsidiary of New York Life, provides the Company with certain services and facilities including, but not limited to, investment management and other administrative services. NYLIM charges the Company for the identified costs associated with these services and facilities under the terms of a service agreement between NYLIM and the Company. For the years ended December 31, 2016 and 2015, the fees incurred associated with these services and facilities amounted to $15 million and $33 million, respectively.

On April 1, 2000, the Company has entered into an investment advisory agreement with NYLIM, whereby NYLIM provides investment advisory and administrative services to the Company. On March 31, 2014, NYLIM assigned its investment advisory rights and obligations under this agreement to NYL Investors LLC ("NYL Investors"), a wholly-owned subsidiary of New York Life. For the years ended December 31, 2016 and 2015, the total cost for these services amounted to $119 million and $109 million, respectively, which is included in the costs of services billed by New York Life to the Company. These costs are included in net investment income in the accompanying Statutory Statement of Operations.

In addition, NYLIM has a management agreement with the MainStay VP Funds Trust ("the Fund"), a registered investment company whose shares are sold to various separate accounts of the Company. NYLIM, the administrator of the Fund, and the Company have entered into an agreement regarding administrative services to be provided by the Company. Under the terms of the agreement, NYLIM pays the Company administrative fees for providing services to the Fund. For the years ended December 31, 2016 and 2015, the Company recorded fee income from NYLIM of $34 million and $35 million, which is included in other income in the accompanying Statutory Statements of Operations.

The Company has a variable product distribution agreement with NYLIFE Distributors LLC ("NYLIFE Distributors"), an indirect wholly-owned subsidiary of New York Life, appointing NYLIFE Distributors as the underwriter and/or wholesale distributor of the Company's variable product policies. For each of the years ended December 31, 2016 and 2015, the Company received service fees of $39 million, under a 12b-1 Plan Services Agreement, in consideration for providing 12b-1 Plan services attributable to the variable products.

The Company has an agreement with NYLIFE Securities LLC ("NYLIFE Securities"), an indirect wholly-owned subsidiary of New York Life, under which registered representatives of NYLIFE Securities solicit sales of the Company's variable product policies. For the years ended December 31, 2016 and 2015, the Company incurred commission expense to NYLIFE Securities' registered representatives of $119 million and $139 million, respectively, under this agreement.

On July 1, 2008, as amended on July 1, 2009, the Company entered into a service fee agreement with NYLIFE Securities, whereby NYLIFE Securities charges the Company a fee for management and supervisory services rendered in connection with variable life and variable annuity sales and in-force business. For the years ended December 31, 2016 and 2015, the fees incurred for these services amounted to $48 million and $51 million, respectively, under this agreement.

At December 31, 2016 and 2015, the Company reported a net amount of $197 million and $242 million, respectively, as amounts payable to parent and affiliates. The terms of the underlying agreements generally require that these amounts be settled in cash within 90 days.

NOTE 12 - INSURANCE LIABILITIES

Policy reserves, deposit funds and policy claims at December 31, 2016 and 2015 were as follows (in millions):

	2016	2015
Life insurance reserves	$ 20,299	$ 19,046
Annuity reserves and supplementary contracts with life contingencies	60,139	55,735
Total policy reserves	80,438	74,781
Deposit funds	1,106	981
Policy claims	151	188
Total policy reserves, deposit funds and claim liabilities	$ 81,695	$ 75,950

Life Insurance Reserves

Reserves for life insurance policies are maintained principally using the 1958 Commissioners' Extended Term Mortality Table and the 1958, 1980 and 2001 Commissioners' Standard Ordinary Mortality Tables under the Commissioners' Reserve Valuation Method or Net Level Premium Reserve Method with valuation interest rates ranging from 2% to 6%. Reserves for universal life secondary guarantee products with multiple sets of cost of insurance are determined using the methodology outlined in the November 2011 Life Actuarial Task Force Statement. In 2016 and 2015, there were no changes to reserve basis.

The Company has established policy reserves (excluding the effects of reinsurance) on contracts issued January 1, 2001 and later that exceed the minimum amounts determined under Appendix A-820, "Minimum Life and Annuity Reserve Standards" of NAIC SAP by approximately $306 million and $268 million at December 31, 2016 and 2015, respectively. The change in these direct reserves decreased pre-tax net gain for the year ended December 31, 2016 by approximately $38 million and increased pre-tax net gain for the year ended December 31, 2015 by approximately $40 million.

At December 31, 2016 and 2015, the Company's liabilities for GMDB reserves, which are associated with certain variable products, amounted to $22 million and $24 million, respectively and were recorded in policy reserves in the accompanying Statutory Statements of Financial Position.

Surrender values are promised in excess of life reserves on certain policies. This excess is included as part of miscellaneous reserves. No surrender values are promised in excess of any other reserves. Additional reserves are held on account of anticipated extra mortality for policies subject to extra premiums.

At December 31, 2016 and 2015, the Company had $12,284 million and $12,478 million, respectively, of insurance in-force for which the gross premiums were less than the net premiums according to the standard of valuation set by the State of Delaware.

The tabular interest has been determined by formula as described in the NAIC instructions except for certain universal life products for which tabular interest has been determined from the basic data for the calculation of policy reserves. The tabular less actual reserves released has been determined by formula as described in the NAIC instructions. The tabular cost has been determined by formula as described in the NAIC instructions.

Annuity Reserves and Supplementary Contracts with Life Contingencies

Reserves for single premium immediate annuities and guaranteed future income annuities are based principally on A2000, 2012 IAR and the Commissioners' Annuity Reserve Valuation Method ("CARVM"), with assumed interest rates ranging from 4% to 6%. Reserves for fixed deferred annuities and supplementary contracts involving life contingencies involving mortality risk are based principally on 1971 Individual Annuity Mortality, 1983 Table A, A2000, 2012 IAR and the CARVM, with assumed interest rates ranging from 3.5% to 10.0%. Reserves for variable deferred annuities are based principally on 1994 Variable Annuity GMDB Mortality Table and the Variable Annuity Commissioners' Annuity Reserve Valuation Method, with assumed interest rates ranging from 3.5% to 8.25%. Generally, owners of the Company's deferred annuities are able, at their discretion, to withdraw funds from their policies. For some policies, the withdrawals are subject to surrender charges in the early years.

At December 31, 2016 and 2015, the Company's liabilities for GMDB and GMAB reserves, which are associated with certain variable products, amounted to $24 million and $35 million, respectively and were recorded in policy reserves in the accompanying Statutory Statements of Financial Position.

The tabular interest has been determined by formula as described in the NAIC instructions except for individual deferred annuities for which tabular interest has been determined from the basic data for the calculation of policy reserves. The tabular less actual reserves released has been determined by formula as described in the NAIC instructions. The tabular cost has been determined by formula as described in the NAIC instructions.

Deposit Funds

Deposit funds at December 31, 2016 and 2015 were as follows (in millions):

	2016	2015
Fixed period annuities	$ 791	$ 692
Supplemental contracts without life contingencies	279	241
Continued interest accounts	36	48
Total deposit funds	$ 1,106	$ 981

Withdrawal Characteristics of Annuity Reserves and Deposit Funds

The following table reflects the withdrawal characteristics of annuity reserves and deposit fund liabilities at December 31, 2016 and 2015 ($ in millions):

	2016				
	General Account	Separate Accounts with Guarantees	Separate Accounts Non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:					
With fair value adjustment	$ 17,545	$ —	$ —	$ 17,545	21%
At book value less current surrender charge of 5% or more	6,097	—	—	6,097	7%
At fair value	—	—	23,459	23,459	28%
Total with adjustment or at fair value	23,642	—	23,459	47,101	56%
At book value without adjustment	24,818	—	—	24,818	29%
Not subject to discretionary withdrawal	12,761	—	—	12,761	15%
Total annuity reserves and deposit fund liabilities	$ 61,221	$ —	$ 23,459	$ 84,680	100%

	2015				
	General Account	Separate Accounts with Guarantees	Separate Accounts Non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:					
With fair value adjustment	$ 13,187	$ —	$ —	$ 13,187	17%
At book value less current surrender charge of 5% or more	5,568	—	—	5,568	7%
At fair value	—	—	21,783	21,783	28%
Total with adjustment or at fair value	18,755	—	21,783	40,538	52
At book value without adjustment	26,736	—	—	26,736	34
Not subject to discretionary withdrawal	11,191	—	—	11,191	14
Total annuity reserves and deposit fund liabilities	$ 56,682	$ —	$ 21,783	$ 78,465	100%

NOTE 13 - REINSURANCE

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk and to be able to issue life insurance policies in excess of its retention limits. Currently, the Company reinsures the mortality risk on new life insurance policies on a quota-share yearly renewable term basis for many products except for custom guarantee universal life and custom guarantee survivorship universal life, and asset preserver products. Most of the ceded business is on an automatic basis. The quota-share currently ceded ranges from 40% to 90%. All products are ceded from first dollar except for SVUL which has a minimum size policy ceded of $1 million and custom guarantee survivorship universal life which has a minimum size policy ceded of $1 million. Cases in excess of the Company's retention and certain substandard cases are ceded on a facultative basis. The majority of the Company's facultative reinsurance is for substandard cases which the Company typically cedes 90%.

The ceding of risk does not discharge the Company from its primary obligations to policyholders. To the extent that the assuming companies become unable to meet their obligations under reinsurance contracts, the Company remains contingently liable. Each reinsurer is reviewed to evaluate its financial stability before entering into each reinsurance contract and throughout the period that the reinsurance contract is in place.

Life insurance reinsured was 61% of total life insurance in-force at both December 31, 2016, and 2015. The reserve reductions taken for life insurance reinsured at December 31, 2016 and 2015 were $4,550 million and $4,705 million, respectively.

The effects of reinsurance for the years ended December 31, 2016 and 2015 were as follows (in millions):

	2016	2015
Premiums:		
Direct	$ 13,360	$ 13,213
Assumed	4	3
Ceded	632	542
Net premiums	$ 12,732	$ 12,674
Policyholders' benefits ceded	$ 715	$ 604
Reinsurance recoverable	$ 168	$ 222

In December 2004, the Company ceded 90% of the retained portion of a block of in-force life insurance business through a reinsurance agreement with New York Life. A total reserve of $5,656 million consisting of UL and VUL products was reinsured using a combination of coinsurance with funds withheld for the fixed portion maintained in the general account and modified coinsurance ("MODCO") for policies in the separate accounts. Under both the MODCO and funds withheld treaties, the Company retains the assets held in relation to the reserves. A $25 million ceding commission was received by the Company at the inception of the treaty. An experience refund will be paid to the Company at the end of each accounting period for 100% of New York Life's profits in excess of $5 million. Experience refunds received in 2016 and 2015 were $37 million and $129 million, respectively, which is reported in premiums in the accompanying Statutory Statements of Operations.

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

The Company had reinsured certain policies with unauthorized companies that prevent it from recognizing full reinsurance credit. Since these reinsurers are not recognized in the State of Delaware, and the receivable owed to the Company is not secured by cash, securities or other permissible collateral, the Company established a liability equal to the net credit received.

NOTE 14 - BENEFIT PLANS

The Company participates in the cost of the following plans sponsored by New York Life: (1) certain postretirement life and health benefits for retired employees and agents including their eligible dependents, (2) certain defined benefit pension plans for eligible employees and agents (3) certain defined contribution plans for substantially all employees and agents and (4) postemployment benefits. The expense for these plans is allocated to the Company in accordance with an intercompany cost sharing agreement. The liabilities for these plans are included with the liabilities for the corresponding plan of New York Life. The Company's share of the cost of these plans was as follows for the years ended December 31, 2016 and 2015 (in millions):

	2016	2015
Postretirement life and health	$ 6	$ 24
Defined benefit pension	28	50
Defined contribution	9	10
Postemployment	—	2
Total	$ 43	$ 86

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Credit Agreements

New York Life Capital Corporation ("NYLCC"), a wholly-owned subsidiary of NYLIFE LLC, has a credit agreement with the Company dated December 23, 2004, as amended, whereby NYLCC has agreed to make loans to the Company in an amount up to, but not exceeding, $490 million from the issuance of commercial paper. At December 31, 2016 and 2015, the Company had no outstanding loan balance to NYLCC. During both 2016 and 2015, the Company had no interest expense.

The Company has a credit agreement with New York Life, dated September 30, 1993, as amended, whereby the Company may borrow from New York Life up to $490 million. During 2016 and 2015, the credit facility was not used, no interest was paid and there was no outstanding balance due.

In addition, the Company has a credit agreement with New York Life dated April 1, 1999, as amended, in which New York Life may borrow from the Company up to $490 million. During 2016 and 2015, the credit facility was not used, no interest was paid and there was no outstanding balance due.

Guarantees

At the inception of a guarantee (except unlimited guarantees), 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 unless the guarantee is deemed unlimited. At December 31, 2016 and 2015, the Company had no such guarantees.

Litigation

The Company is a defendant in individual and/or alleged class action suits arising from its agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, and/or other operations, including actions involving retail sales practices. Some of these actions seek substantial or unspecified compensatory and punitive damages. The Company is also from time to time involved in various governmental, administrative, and investigative proceedings and inquiries.

Notwithstanding the uncertain nature of litigation and regulatory inquiries, the outcome of which cannot be predicted, the Company believes that, after provisions made in the financial statements, the ultimate liability that could result from litigation and proceedings would not have a material adverse effect on the Company's financial position; however, it is possible that settlements or adverse determinations in one or more actions or other proceedings in the future could have a material adverse effect on the Company's operating results for a given year.

Loaned Securities and Repurchase Agreements

The Company participates in securities lending programs whereby securities, which are included in investments, are loaned to third parties for the purpose of enhancing income on securities held through reinvestment of cash collateral received upon lending. For securities lending transactions, the Company requires initial collateral, usually in the form of cash, equal to 102% of the fair value of domestic securities loaned. The borrower of the loaned securities is permitted to sell or repledge those securities. At December 31, 2016 and 2015, the Company recorded cash collateral received under these agreements of $675 million and $600 million, respectively, and established a corresponding liability for the same amount, which is included in amounts payable under security lending agreements in the accompanying Statutory Statements of Financial Position. For securities lending transactions, the carrying value of securities classified as bonds and on loan at December 31, 2016 was $651 million, with a fair value of $659 million. At December 31, 2015, the carrying value was $598 million, with a fair value of $586 million. The reinvested collateral is reported in bonds, cash equivalent and short-term investments in the accompanying Statutory Statements of Financial Position. The total fair value of all reinvested collateral positions was $691 million and $611 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, there were no separate accounts securities lending agreements.

The Company participates in dollar repurchase agreements to sell and repurchase securities. The purchaser of the securities is permitted to sell or repledge those securities. The liability for repurchasing the assets is included in borrowed money in accompanying Statutory Statements of Financial Position. At December 31, 2016 and 2015, the Company did not enter into any dollar roll agreements.

At December 31, 2016, the carrying value and fair value of securities held under agreements to purchase and resell was $298 million, which were classified as tri-party repurchase agreements and included with cash, cash equivalents and short-term investments. The securities had a weighted average maturity of three days and a weighted average yield of 0.4%. At December 31, 2015, the carrying value and fair value of securities held under agreements to purchase and resell was $298 million, which were classified as tri-party repurchase agreements and included with cash, cash equivalents and short-term investments. The securities had a weighted average maturity of four days and a weighted average yield of 0.3%.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (continued)

The following table presents the term and amounts of cash collateral received under securities lending agreements at December 31, 2016 and 2015 (in millions):

	2016					
	Remaining Contractual Maturity of the Agreements					
	Open	30 days or less	31 to 60 days	61 to 90 days	Greater than 90 days	Total
General Account Securities Lending						
US. Treasury	$ 49	$ —	$ —	$ —	$ —	$ 49
U.S. government corporation and agencies	18	—	—	—	—	18
Foreign governments	2	—	—	—	—	2
U.S. corporate	515	—	—	—	—	515
Foreign corporate	91	—	—	—	—	91
Non-agency asset backed securities	—	—	—	—	—	—
Total general account securities lending transactions	$ 675	$ —	$ —	$ —	$ —	$ 675

	2015					
	Remaining Contractual Maturity of the Agreements					
	Open	30 days or less	31 to 60 days	61 to 90 days	Greater than 90 days	Total
General Account Securities Lending						
US. Treasury	$ 109	$ —	$ —	$ —	$ —	$ 109
U.S. government corporation and agencies	12	—	—	—	—	12
Foreign governments	6	—	—	—	—	6
U.S. corporate	363	—	—	—	—	363
Foreign corporate	110	—	—	—	—	110
Total general account securities lending transactions	$ 600	$ —	$ —	$ —	$ —	$ 600

The following tables present the term and aggregate fair value of all securities acquired from the use of all collateral received at December 31, 2016 and 2015 (in millions):

	2016		2015	
	General Account Securities Lending		General Account Securities Lending	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open	$ —	—	$ —	$ —
30 days or less	392	392	339	339
31 to 60 days	70	70	49	49
61 to 90 days	16	16	6	6
91 to 120 days	5	5	11	11
121 to 180 days	7	7	20	20
181 to 365 days	8	8	26	26
1 to 2 years	48	48	41	41
2 to 3 years	90	90	57	57
Greater than 3 years	55	55	63	62
Total collateral reinvested	$ 691	$ 691	$ 612	$ 611

Assessments

Most of the jurisdictions in which the Company is licensed to transact business require life insurers to participate in guaranty associations which are organized to pay contractual benefits pursuant to insurance policies issued by impaired, insolvent or failed life insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed life insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets.

The following table presents the change in the assets recognized from paid and accrued premium tax offsets and policy surcharges at December 31, 2016 and 2015 (in millions):

	2016	2015
Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	$ 16	$ 23
Decreases current year:		
Premium tax offset applied	(6)	(5)
Increases (decreases) current year:		
Increase in guaranty funds receivable	—	(2)
Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	$ 10	$ 16

Other Commitments and Contingencies

Prior to July 1, 2002, the Company did business in Taiwan through a branch operation (the "Taiwan Branch"). On July 1, 2002, the Taiwan Branch ceased operations and all of its liabilities and assets, including policy liabilities were transferred to New York Life Insurance Taiwan Corporation ("Taiwan Corporation"), an

indirect subsidiary of New York Life. On December 31, 2013, Taiwan Corporation was sold to Yuanta Financial Holding Co. Ltd. ("Yuanta"). Under the terms of the sale agreement, Yuanta has agreed to satisfy in full, or to cause Taiwan Corporation to satisfy in full, all of Taiwan Corporation's obligations under the Taiwan Branch policies that were transferred to Taiwan Corporation on July 1, 2002. However, the Company, under Taiwan law, also remains contingently liable for these policies in the event that neither Taiwan Corporation nor Yuanta meets its obligations. This contingent liability of the Company has not been recognized on the accompanying Statutory Statements of Financial Position because it does not meet the probable and estimable criteria of SSAP No. 5R.

At December 31, 2016 and 2015, the Company had outstanding contractual obligations to acquire additional private placement securities, amounting to $447 million and $275 million, respectively.

At December 31, 2016 and 2015, the Company and its guaranteed separate accounts had contractual commitments to extend credit for commercial mortgage loans at both fixed and variable rates of interest, which amounted to approximately $508 million and $554 million, respectively. These commitments are diversified by property type and geographic location. There were no contractual commitments to extend credit for residential loans at December 31, 2016 and 2015.

Unfunded commitments on limited partnership, limited liability companies and other invested assets amounted to $257 million and $288 million at December 31, 2016 and 2015, respectively.

Unfunded commitments on LIHTC amounted to $32 million and $14 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, unfunded commitments on LIHTC are included in limited partnerships and other invested assets, with an offset in other liabilities in the accompanying Statutory Statement of Financial Position.

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

FHLB Agreement

On February 18, 2015, the Company became a member of the FHLB of Pittsburgh. Membership in the FHLB of Pittsburgh provides the Company with a significant source of alternative liquidity. Advances received by the general account are included in other liabilities. When borrowing from the FHLB of Pittsburgh, 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 Pittsburgh's recovery from the collateral is limited to the amount of the Company's liability to the FHLB of Pittsburgh.

The amount of FHLB of Pittsburgh capital stock held, in aggregate exclusively in the Company’s general account at December 31, 2016 and 2015 was as follows (in millions):

	2016	2015
Membership stock - Class B	24	24
Activity stock	—	—
Aggregate total	$ 24	$ 24
Actual or estimated borrowing capacity as determined by the insurer	$ 4,550	$ 4,273

At December 31, 2016 and 2015, membership stock is not eligible for redemption.

At December 31, 2016 and 2015, the Company did not have a balance due to the FHLB of Pittsburgh. The maximum amount borrowed and collateral pledged to the FHLB of Pittsburgh during the years ended December 31, 2016 and 2015 was as follows (in millions):

	Fair Value	Carrying Value	Amount Borrowed at Time of Maximum Collateral
Current year general account	$ 17	$ 17	$ 10
Current year separate accounts	$ —	$ —	$ —
Prior year total general and separate accounts	$ 19	$ 19	$ 10

The Company does not have any prepayment obligations for the borrowing arrangement.

NOTE 16 - INCOME TAXES

The components of the net DTAs and DTLs were as follows at December 31, 2016 and 2015 (in millions):

	2016			2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	$ 775	$ 316	$ 1,091	$ 703	$ 218	$ 921	$ 72	$ 98	$ 170
Statutory valuation allowance	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs	775	316	1,091	703	218	921	72	98	170
Nonadmitted DTAs	404	59	463	374	35	409	30	24	54
Subtotal net admitted DTAs	371	257	628	329	183	512	42	74	116
Gross DTLs	133	235	368	92	160	252	41	75	116
Net admitted DTAs	$ 238	$ 22	$ 260	$ 237	$ 23	$ 260	$ 1	$ (1)	$ —

Net DTAs are nonadmitted primarily because they are not expected to be realized within three years of the Statutory Statement of Financial Position date. The admitted portion of the net DTAs is included in Other assets in the accompanying Statutory Statements of Financial Position.

NOTE 16 - INCOME TAXES (continued)

The admission calculation components are as follows (paragraph references throughout Note 16 are to paragraphs of SSAP No. 101 “Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10”) (in millions):

	December 31, 2016			December 31, 2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks (Paragraph 11.a)	$ 238	$ 13	$ 251	$ 237	$ 23	$ 260	$ 1	$ (10)	$ (9)
Adjusted gross DTAs expected to be realized (excluding the amount of DTAs from paragraph 11.a above) after application of the threshold limitation (the lesser of paragraph 11.b.i and 11.b.ii below):	—	9	9	—	—	—	—	9	9
Adjusted gross DTAs expected to be realized following the balance sheet date. (Paragraph 11.b.i)	—	9	9	—	—	—	—	9	9
Adjusted gross DTAs allowed per limitation threshold (Paragraph 11.b.ii)	N/A	N/A	1,270	N/A	N/A	1,183	N/A	N/A	87
									—
Adjusted gross DTAs (excluding the amount of DTAs from paragraphs 11.a and 11.b above) offset by gross DTLs (Paragraph 11.c)	133	235	368	92	160	252	41	75	116
DTAs admitted as the result of application of SSAP 101 (Total of paragraphs 11.a, 11.b, 11.c).	$ 371	$ 257	$ 628	$ 329	$ 183	$ 512	$ 42	$ 74	$ 116

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

	December 31,	
	2016	2015
Ratio percentage used to determine recovery period and threshold limitation amount.	1,170%	1,148%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in paragraph 11.b.ii above.	$ 8,464	$ 7,885

There was no impact on the Company’s adjusted gross and net admitted DTAs due to tax planning strategies at December 31, 2016 and 2015. The Company did not use reinsurance in its tax planning strategies.

The Company had no unrecognized DTLs at December 31, 2016 and 2015. At December 31, 2016, the Company had no adjustments of DTAs or DTLs for enacted changes in tax laws or rates, or a change in tax status. Additionally, the Company had no adjustments to gross DTAs because of a change in circumstances that causes a change in judgment about the realizability of the related DTAs.

NOTE 16 - INCOME TAXES (continued)

Significant components of the current federal income tax expense incurred for the years ended December 31, 2016 and 2015 were as follows (in millions):

	2016	2015	Change
Current Income Tax			
Federal[1]	$ 279	$ 265	$ 14
Foreign	—	1	(1)
Subtotal	279	266	13
Federal income tax on net capital gains	(21)	33	(54)
Total federal and foreign income tax expense incurred	$ 258	$ 299	$ (41)

[1] The Company had investment tax credits of $38 million and $49 million for the years ended December 31, 2016 and 2015, respectively.

NOTE 16 - INCOME TAXES (continued)

The tax effects of temporary differences that give rise to DTAs and DTLs at December 31, 2016 and 2015 were as follows (in millions):

	2016	2015	Change
DTAs			
Ordinary:			
Pension accrual	$ 52	$ 51	$ 1
Policyholder reserves	261	216	45
Deferred acquisition costs	391	393	(2)
Compensation and benefits accrual	—	—	—
Fixed assets	3	4	(1)
Receivables - nonadmitted	27	22	5
Investments	40	20	20
Other	1	—	1
Subtotal	775	706	69
Nonadmitted	404	374	30
Admitted ordinary DTAs	371	332	39
Capital:			
Investments	316	215	101
Real estate	—	—	—
Subtotal	316	215	101
Nonadmitted	59	35	24
Admitted capital DTAs	257	180	77
Total admitted DTAs	628	512	116
DTLs			
Ordinary:			
Investments	55	25	30
Fixed assets	—	—	—
Policyholder reserves	75	62	13
Other	3	5	(2)
Subtotal	133	92	41
Capital:			
Investments	235	160	75
Real estate		—	—
Subtotal	235	160	75
Total DTLs	368	252	116
Net admitted DTAs	$ 260	$ 260	$ —

Deferred income tax benefit on change in net unrealized capital gains and losses	$ 1
Decrease in net deferred tax related to other items	54
Decrease in DTAs nonadmitted	(55)
Total change in net admitted DTAs	$ —

NOTE 16 - INCOME TAXES (continued)

The Company's income tax expense for the years ended December 31, 2016 and 2015 differs from the amount obtained by applying the statutory rate of 35% to net gain from operations after dividends to policyholders and before federal income taxes for the following reasons (in millions):

	2016	2015	Change
Net gain from operations after dividends to policyholders and before federal income taxes	$ 409	$ 259	$ 150
Net realized capital gains	(38)	15	(53)
Tax exempt income	(47)	(45)	(2)
Tax credits, net of withholding	(40)	(54)	14
Amortization of IMR	(18)	(28)	10
Prior year audit liability and settlement	(36)	6	(42)
Non-admitted assets	(13)	(2)	(11)
Accruals in surplus	(23)	(1)	(22)
Other	10	(18)	28
Income tax incurred and change in net DTAs during period	$ 204	$ 132	$ 72
Federal income taxes reported in the Company's Statutory Statement of Operations	$ 279	$ 266	$ 13
Capital gains tax benefits incurred	(21)	33	(54)
Change in net deferred income taxes	(54)	(167)	113
Total statutory income tax expense	$ 204	$ 132	$ 72

The Company's federal income tax returns are routinely examined by the Internal Revenue Service ("IRS") and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 2010 and tax years 2011 through 2013 are currently under examination. There were no material effects on the Company's accompanying Statutory Statements of Operations as a result of these audits. The Company believes that its recorded income tax liabilities are adequate for all open years.

The Company did not have any operating loss and tax credit carry forwards available for tax purposes. The total income taxes incurred in prior years that will be available for recoupment in the event of future net losses total $326 million, $208 million and $262 million, related to the years ended December 31, 2016, 2015 and 2014, respectively.

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

As discussed in Note 3 – Significant Accounting Policies - Federal Income Taxes, the Company's federal income tax return is consolidated with certain of its insurance and non-insurance affiliates.

At December 31, 2016, the Company recorded a current income tax payable of $7 million.

At December 31, 2016, the Company had no protective tax deposits on deposit with the IRS under Internal Revenue Code Section 6603 of the IRS Code.

NOTE 17 - CAPITAL AND SURPLUS

Capitalization

The Company has 20,000 shares authorized, with a par value of $10,000 per share with 2,500 shares issued and outstanding. All shares are common stock and are owned by New York Life. The Company has no preferred stock.

Other Surplus Adjustments

Other adjustments, net in the accompanying Statutory Statements of Changes in Surplus at December 31, 2016 and 2015, principally include the effects of the following (in millions):

	2016	2015
Surplus withdrawn from separate accounts	$ 41	$ 30
Changes in surplus relating to separate accounts	(38)	(34)
Change in liability for reinsurance in unauthorized companies	(4)	—
Total	$ (1)	$ (4)

Nonadmitted Assets

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

The following table shows the major categories of assets that were nonadmitted at December 31, 2016 and 2015, respectively (in millions):

	2016	2015	Change
Net deferred tax assets	463	$ 409	$ 54
Clearing and suspense	62	35	27
Other	36	26	10
Total	$ 561	$ 470	$ 91

NOTE 18 - DIVIDENDS TO STOCKHOLDER

The Company is subject to restrictions on the payment of dividends to New York Life. Under the Delaware Insurance Code, cash dividends can be paid only out of that part of the Company's available and accumulated surplus funds which are derived from realized net operating profits on its business and realized capital gains, and dividends (or other distributions) on capital stock can be declared and paid only out of earned surplus (being an amount equal to the unassigned funds of the Company as set forth in its most recent annual statement submitted to the Delaware Insurance Commissioner ("the Commissioner"), including all or part of the surplus arising from unrealized capital gains or revaluation of assets), except as otherwise approved by the Commissioner (provided that stock dividends may be paid out of any available surplus funds). Furthermore, no extraordinary dividend may be paid until 30 days after the Commissioner has received notice of such declaration and has not disapproved such payment within such 30 day period, or the Commissioner has approved such payment within that 30 day period. Extraordinary dividends are defined as any dividend or distribution or cash or other property, whose fair market value, together with that of other dividends or

distributions made within the preceding 12 months, exceeds the greater of (1) 10 percent of the Company's surplus as regards policyholders as of the preceding December 31 or (2) the net gain from operations of the Company for the 12 month period ending on the preceding December 31 (not including pro rata distributions of any class of the Company's own securities).

At December 31, 2016, the amount of earned surplus of the Company available for the payment of dividends was $4,772 million. The maximum amount of dividends that may be paid in 2016 without prior notice to or approval of the Delaware Insurance Commissioner is $890 million.

Dividends may be declared by the Board of Directors of the Company from available surplus, as it deems appropriate, on a non-cumulative basis. At December 31, 2016 and 2015, the Company did not declare a dividend to its sole shareholder New York Life.

NOTE 19 - SUBSEQUENT EVENTS

As of March 9, 2017, the date the financial statements were available to be issued, there have been no events occurring subsequent to the close of the Company's books or accounts for the accompanying statutory financial statements that would have a material effect on the financial condition of the Company.

NOTE 20 - LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS

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

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
General Account						
000112AA0	$ 724	$ 724	$ —	$ 724	$ 505	12/31/2016
059469AF3	1,552	1,527	25	1,527	1,437	12/31/2016
05948KH77	1,150	1,141	9	1,141	1,127	12/31/2016
05951KAZ6	146	142	4	142	129	12/31/2016
05951KBA0	2,095	2,003	92	2,003	1,894	12/31/2016
05953YAA9	6,688	6,604	84	6,604	6,063	12/31/2016
12566VAN2	3,897	3,709	188	3,709	3,701	12/31/2016
12627HAK6	1,425	1,398	27	1,398	1,240	12/31/2016
12628KAF9	1,494	1,430	64	1,430	1,377	12/31/2016
12628LAJ9	374	368	6	368	312	12/31/2016
12638PAE9	1,739	1,720	19	1,720	1,593	12/31/2016
12667G6W8	2,732	2,662	70	2,662	2,709	12/31/2016
12667G7X5	1,721	1,660	61	1,660	1,690	12/31/2016
12667GXN8	575	545	30	545	537	12/31/2016
14310RAA4	21,382	21,165	217	21,165	21,165	12/31/2016
14311KAA8	29,245	21,967	7,278	21,967	22,089	12/31/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
16163LAR3	93	89	4	89	88	12/31/2016
16165MAC2	1,053	987	66	987	1,029	12/31/2016
16165MAE8	2,002	1,888	114	1,888	1,955	12/31/2016
16165MAG3	1,351	1,276	75	1,276	1,320	12/31/2016
17306SAA1	1,922	1,860	62	1,860	1,884	12/31/2016
18976GAV8	1,463	1,448	15	1,448	1,423	12/31/2016
251510MF7	5,050	5,040	10	5,040	4,934	12/31/2016
251511AC5	4,381	4,305	76	4,305	4,272	12/31/2016
251511AF8	2,559	2,514	45	2,514	2,484	12/31/2016
26924BAA1	3,005	2,338	667	2,338	2,312	12/31/2016
29760LAA0	3,005	2,338	667	2,338	2,312	12/31/2016
32051GUU7	767	730	37	730	762	12/31/2016
32052MAH4	505	455	50	455	492	12/31/2016
36185MBN1	353	346	7	346	336	12/31/2016
3622E8AC9	4,255	3,995	260	3,995	4,043	12/31/2016
3622ELAG1	437	433	4	433	407	12/31/2016
3622MPAT5	66	66	—	66	65	12/31/2016
362334MD3	45	34	11	34	44	12/31/2016
3623416X2	1,677	1,508	169	1,508	1,642	12/31/2016
36244SAC2	6,015	5,850	165	5,850	5,937	12/31/2016
36244SAF5	3,743	3,641	102	3,641	3,693	12/31/2016
45667QAD3	4,470	4,234	236	4,234	4,067	12/31/2016
45667QAE1	8,182	7,577	605	7,577	7,444	12/31/2016
466247ZQ9	830	803	27	803	826	12/31/2016
52521MAB8	2,955	2,921	34	2,921	2,612	12/31/2016
61749EAH0	1,184	1,162	22	1,162	1,068	12/31/2016
61750YAB5	89	86	3	86	86	12/31/2016
61752RAH5	620	594	26	594	577	12/31/2016
61752RAJ1	1,366	1,310	56	1,310	1,288	12/31/2016
69336RBA7	155	68	87	68	154	12/31/2016
78476YAA4	1,173	1,173	—	1,173	1,056	12/31/2016
86359B5U1	80	78	2	78	81	12/31/2016
86359DQR1	986	850	136	850	947	12/31/2016
86361PAF3	798	788	10	788	749	12/31/2016
93934FCE0	1,601	1,597	4	1,597	1,574	12/31/2016
94983PAG3	1,754	1,628	126	1,628	1,655	12/31/2016
94983UAB3	3,961	3,819	142	3,819	3,832	12/31/2016
94984FAT6	2,433	2,291	142	2,291	2,387	12/31/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
94984MAG9	18,507	16,758	1,749	16,758	17,324	12/31/2016
94984UAL0	793	787	6	787	743	12/31/2016
059469AF3	1,620	1,601	19	1,601	1,510	9/30/2016
05948KH77	1,311	1,251	60	1,251	1,232	9/30/2016
05948KX79	2,344	2,269	75	2,269	2,243	9/30/2016
073875AN6	1,067	1,040	27	1,040	1,003	9/30/2016
12627HAK6	1,503	1,477	26	1,477	1,347	9/30/2016
12628KAF9	1,598	1,533	65	1,533	1,466	9/30/2016
12628LAJ9	389	384	5	384	313	9/30/2016
12667G6W8	3,002	2,900	102	2,900	2,851	9/30/2016
12667GXN8	422	401	21	401	400	9/30/2016
126694DT2	2,224	2,074	150	2,074	2,144	9/30/2016
151314FK2	1,779	1,765	14	1,765	1,634	9/30/2016
16163LAR3	99	96	3	96	92	9/30/2016
16165MAC2	1,130	1,077	53	1,077	1,052	9/30/2016
16165MAE8	2,147	2,048	99	2,048	2,000	9/30/2016
16165MAG3	1,449	1,382	67	1,382	1,350	9/30/2016
17306SAA1	2,196	2,121	75	2,121	2,056	9/30/2016
17308FAD1	4,186	4,069	117	4,069	4,070	9/30/2016
17311LAH4	377	346	31	346	377	9/30/2016
18976GAV8	1,583	1,512	71	1,512	1,483	9/30/2016
225470S95	1,067	971	96	971	831	9/30/2016
251511AC5	4,731	4,537	194	4,537	4,435	9/30/2016
251511AF8	2,776	2,650	126	2,650	2,578	9/30/2016
32051GUU7	836	817	19	817	814	9/30/2016
32051GZR9	998	977	21	977	983	9/30/2016
32056JAG9	408	368	40	368	404	9/30/2016
36185MBN1	381	373	8	373	354	9/30/2016
3622ELAG1	450	446	4	446	432	9/30/2016
3622MPAT5	75	71	4	71	71	9/30/2016
362334MD3	3	3	—	3	3	9/30/2016
3623416X2	1,905	1,862	43	1,862	1,856	9/30/2016
362375AF4	1,026	1,013	13	1,013	981	9/30/2016
45667QAD3	4,742	4,594	148	4,594	4,180	9/30/2016
45667QAE1	8,660	8,409	251	8,409	7,651	9/30/2016
466247ZQ9	860	858	2	858	858	9/30/2016
46630MAG7	619	616	3	616	619	9/30/2016
52521MAB8	3,163	3,000	163	3,000	2,650	9/30/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
57643MDY7	20	20	—	20	14	9/30/2016
61749EAH0	1,212	1,207	5	1,207	1,104	9/30/2016
61750YAB5	92	92	—	92	91	9/30/2016
61751DAE4	624	620	4	620	618	9/30/2016
64352VGK1	2,297	2,286	11	2,286	2,265	9/30/2016
649603AQ0	2,142	2,074	68	2,074	1,929	9/30/2016
69337GAL7	2,250	2,172	78	2,172	1,795	9/30/2016
73316PEZ9	1,623	1,619	4	1,619	1,604	9/30/2016
76111XPT4	14	5	9	5	10	9/30/2016
86359B5U1	85	83	2	83	82	9/30/2016
86361PAF3	806	802	4	802	755	9/30/2016
93934FCE0	1,818	1,740	78	1,740	1,712	9/30/2016
94983PAG3	1,920	1,862	58	1,862	1,759	9/30/2016
94983UAB3	4,218	4,173	45	4,173	4,133	9/30/2016
94984FAT6	2,698	2,669	29	2,669	2,669	9/30/2016
94984MAG9	5,313	5,074	239	5,074	4,955	9/30/2016
000112AA0	1,293	1,293	—	1,293	829	6/30/2016
05947US25	3,249	2,697	552	2,697	2,698	6/30/2016
073868AM3	1,938	1,897	41	1,897	2,050	6/30/2016
12566VAN2	4,149	4,141	8	4,141	3,927	6/30/2016
12627HAK6	1,569	1,566	3	1,566	1,322	6/30/2016
12628KAF9	1,641	1,641	—	1,641	1,500	6/30/2016
12628LAJ9	406	400	6	400	323	6/30/2016
12629EAD7	1,524	1,513	11	1,513	1,354	6/30/2016
126502AC7	24	23	1	23	23	6/30/2016
16163HAG6	93	89	4	89	93	6/30/2016
251510MF7	5,413	5,389	24	5,389	5,297	6/30/2016
251511AC5	4,916	4,856	60	4,856	4,560	6/30/2016
251511AF8	2,883	2,849	34	2,849	2,650	6/30/2016
251513AV9	2,783	2,759	24	2,759	2,610	6/30/2016
251513BC0	1,082	1,065	17	1,065	1,014	6/30/2016
3622E8AC9	4,561	4,546	15	4,546	4,105	6/30/2016
3622ELAG1	463	461	2	461	431	6/30/2016
362375AF4	1,068	1,053	15	1,053	994	6/30/2016
466247ZQ9	922	921	1	921	915	6/30/2016
46630MAG7	638	628	10	628	603	6/30/2016
57643MEV2	—	—	—	—	—	6/30/2016
59023RAJ8	759	722	37	722	759	6/30/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
61749EAH0	1,278	1,249	29	1,249	1,110	6/30/2016
61750YAB5	1,419	1,389	30	1,389	1,438	6/30/2016
61751DAE4	645	637	8	637	612	6/30/2016
61751JAH4	2,515	2,436	79	2,436	2,447	6/30/2016
61751JAJ0	2,498	2,420	78	2,420	2,446	6/30/2016
61752RAH5	686	655	31	655	642	6/30/2016
61752RAJ1	1,515	1,443	72	1,443	1,433	6/30/2016
65536VAC1	3,319	3,319	—	3,319	3,441	6/30/2016
73316PEZ9	2,197	2,195	2	2,195	2,166	6/30/2016
75970HAD2	282	280	2	280	265	6/30/2016
86361PAF3	858	816	42	816	769	6/30/2016
933637AJ9	1,052	1,039	13	1,039	1,051	6/30/2016
93934FCS9	897	869	28	869	880	6/30/2016
93934FLW0	1,728	1,695	33	1,695	1,708	6/30/2016
94984UAL0	814	812	2	812	776	6/30/2016
BNL0KAV80	45,005	41,402	3,603	41,402	45,050	6/30/2016
000112AA0	1,265	1,265	—	1,265	800	3/31/2016
02147XAS6	1,040	964	76	964	1,033	3/31/2016
059469AF3	1,828	1,770	58	1,770	1,621	3/31/2016
05948KP52	346	345	1	345	334	3/31/2016
05951FAK0	589	560	29	560	511	3/31/2016
05951KAZ6	163	160	3	160	148	3/31/2016
05951KBA0	2,344	2,298	46	2,298	2,177	3/31/2016
073868AM3	2,034	2,005	29	2,005	1,964	3/31/2016
073875AN6	1,227	1,173	54	1,173	1,130	3/31/2016
12544ABN4	1,396	1,271	125	1,271	1,334	3/31/2016
12628LAJ9	418	418	—	418	338	3/31/2016
12668AMN2	4,073	3,948	125	3,948	4,052	3/31/2016
12668AY25	2,106	2,090	16	2,090	2,096	3/31/2016
12668AYU3	3,832	3,520	312	3,520	3,777	3/31/2016
12668BKG7	1,642	1,602	40	1,602	1,627	3/31/2016
126694DT2	2,607	2,575	32	2,575	2,504	3/31/2016
12669GS69	17	17	—	17	—	3/31/2016
16163HAG6	98	96	2	96	96	3/31/2016
17309BAB3	223	211	12	211	217	3/31/2016
18976GAV8	1,712	1,707	5	1,707	1,606	3/31/2016
251513AV9	2,937	2,906	31	2,906	2,642	3/31/2016
251513BC0	1,141	1,130	11	1,130	1,029	3/31/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
3622ELAG1	481	471	10	471	436	3/31/2016
362375AF4	1,104	1,093	11	1,093	993	3/31/2016
45660LSY6	2,137	2,121	16	2,121	2,113	3/31/2016
46630MAD4	3,494	3,494	—	3,494	3,446	3/31/2016
57643MEV2	1	—	1	—	—	3/31/2016
589929XZ6	746	741	5	741	767	3/31/2016
61749EAH0	1,333	1,311	22	1,311	1,213	3/31/2016
61750YAB5	1,535	1,455	80	1,455	1,463	3/31/2016
61751DAE4	675	658	17	658	630	3/31/2016
69336QAL6	450	415	35	415	447	3/31/2016
73316PEZ9	2,717	2,698	19	2,698	2,654	3/31/2016
76111XPU1	10	7	3	7	1	3/31/2016
76114CAD8	1,524	1,464	60	1,464	1,494	3/31/2016
76114QAC9	121	116	5	116	117	3/31/2016
863579UU0	1,599	1,563	36	1,563	1,536	3/31/2016
86361PAF3	929	905	24	905	832	3/31/2016
933634AF4	3,589	3,530	59	3,530	3,371	3/31/2016
93934FCS9	941	938	3	938	924	3/31/2016
94980GAK7	1,112	1,099	13	1,099	1,081	3/31/2016
BNL0KAV80	49,111	45,508	3,603	45,508	45,107	3/31/2016
Subtotal - General Account	**XXX**	**XXX**	**26,988**	**XXX**	**XXX**	
Guaranteed Separate Accounts						
059469AF3	258	254	4	254	239	12/31/2016
05951KBA0	425	399	26	399	392	12/31/2016
12566VAN2	149	142	7	142	142	12/31/2016
12627HAK6	248	242	6	242	219	12/31/2016
12628KAF9	195	187	8	187	180	12/31/2016
16163LAR3	815	788	27	788	775	12/31/2016
16165MAC2	263	246	17	246	257	12/31/2016
17306SAA1	339	329	10	329	333	12/31/2016
251511AC5	122	120	2	120	119	12/31/2016
251511AF8	144	142	2	142	140	12/31/2016
3622E8AC9	90	85	5	85	86	12/31/2016
3622MPAT5	66	66	—	66	65	12/31/2016
36244SAC2	329	320	9	320	325	12/31/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
36244SAF5	312	303	9	303	308	12/31/2016
61749EAH0	254	249	5	249	229	12/31/2016
86359B5U1	80	78	2	78	81	12/31/2016
94983UAB3	481	466	15	466	464	12/31/2016
94984FAT6	45	42	3	42	44	12/31/2016
94984MAG9	676	604	72	604	624	12/31/2016
059469AF3	269	266	3	266	252	9/30/2016
12627HAK6	265	257	8	257	238	9/30/2016
12628KAF9	208	200	8	200	191	9/30/2016
16163LAR3	870	846	24	846	810	9/30/2016
16165MAC2	282	269	13	269	263	9/30/2016
17306SAA1	388	374	14	374	363	9/30/2016
251511AC5	131	126	5	126	123	9/30/2016
251511AF8	156	149	7	149	145	9/30/2016
3622MPAT5	75	71	4	71	71	9/30/2016
61749EAH0	260	259	1	259	237	9/30/2016
61751DAE4	89	89	—	89	88	9/30/2016
73316PEZ9	51	51	—	51	50	9/30/2016
86359B5U1	85	83	2	83	82	9/30/2016
94983UAB3	511	506	5	506	501	9/30/2016
94984FAT6	50	49	1	49	49	9/30/2016
12566VAN2	82	81	1	81	77	6/30/2016
12627HAK6	276	276	—	276	233	6/30/2016
16163HAG6	94	89	5	89	93	6/30/2016
251511AC5	137	135	2	135	127	6/30/2016
251511AF8	162	160	2	160	149	6/30/2016
3622E8AC9	97	97	—	97	87	6/30/2016
61749EAH0	274	268	6	268	238	6/30/2016
61750YAB5	164	161	3	161	167	6/30/2016
61751DAE4	92	91	1	91	87	6/30/2016
73316PEZ9	69	69	—	69	68	6/30/2016
75970HAD2	20	20	—	20	19	6/30/2016
059469AF3	304	294	10	294	270	3/31/2016
61749EAH0	286	281	5	281	260	3/31/2016
61751DAE4	96	94	2	94	90	3/31/2016
05951KBA0	477	467	10	467	450	3/31/2016
16163HAG6	98	96	2	96	96	3/31/2016
61750YAB5	178	168	10	169	170	3/31/2016

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	**Amortized Cost Before Current Period OTTI**	**Projected Cash Flows**	**Current Period Recognized OTTI**	**Amortized Cost After OTTI**	**Fair Value**	**Financial Statement Reporting Period**
73316PEZ9	85	84	1	84	83	3/31/2016
94980GAK7	175	173	2	173	170	3/31/2016
Subtotal - Guaranteed Separate Accounts	**XXX**	**XXX**	**386**	**XXX**	**XXX**	
Grand Total	**XXX**	**XXX**	**$ 27,374**	**XXX**	**XXX**	

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

[2]CUSIP amounts less than $1 thousand within this table are shown as zero.