NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

December 31, 2016

Management's Discussion and Analysis of Financial Condition and Results of Operations (**"MD&A"**) addresses the financial condition of New York Life Insurance and Annuity Corporation (**"the Company"**) at December 31, 2016, compared with December 31, 2015, and its results of operations for the years ended December 31, 2016 and 2015. This discussion should be read in conjunction with the Statutory Financial Statements.

FORWARD-LOOKING INFORMATION

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

- Difficult conditions in the global capital markets and the economy.
- Significant financial and capital market risks affecting the Company's businesses, including interest rate risk, liquidity risk, credit risk, equity risk and risk of fluctuations in credit spreads.
- Declines in the equity markets may reduce sales of the Company's variable products and/or increase the cost of the Company's Guaranteed Minimum Accumulation Benefits (**"GMAB"**), Guaranteed Minimum Death Benefits (**"GMDB"**), Guaranteed Future Income Benefits (**"GFIB"**) and Enhanced Beneficiary Benefits (**"EBB"**) reserves.
- Adverse regulatory developments.
- Adverse capital and credit market conditions.
- Significant market valuation fluctuations of the Company's investments.
- Significant competition in the Company's business.
- Downgrades or potential downgrades in the Company's ratings.
- The sensitivity of the amount of statutory capital the Company must hold to factors outside of its control.
- Subjectivity in determining the amount of allowances and impairments taken on certain of the Company's investments.
- Deviations from assumptions regarding future mortality, morbidity and interest rates used in calculating reserve amounts and pricing the Company's products.
- The effectiveness of the Company's risk management policies and procedures.
- Losses due to defaults by, or deteriorating credit of third parties, including issuers of investment securities or reinsurance and derivative instrument counterparties.
- Requirements to post collateral or make payments related to declines in market value of specified assets.

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

- The impact of natural or man-made disasters on the Company's operations, results of operations and financial condition.

- Changes in tax laws and the interpretation thereof.

- Litigation and regulatory investigations.

- A computer system failure or security breach.

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

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OVERVIEW

The Company, a direct, wholly owned subsidiary of New York Life Insurance Company (**"New York Life"**), was incorporated in Delaware on November 3, 1980. 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 is comprised of two primary business segments, the Insurance and Agency Group and the Investments Group. 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 third-party distributors (such as independent brokers, brokerage general agents and banks).

Investments Group

The Investments Group manufactures and markets investment and income annuities. Investment annuities include fixed deferred and variable deferred annuities. Income annuities primarily include fixed income annuities intended to assist customers with guaranteed payments in their retirement years.

Insurance and Agency Group

The Insurance and Agency Group provides variable and universal life insurance products principally to middle and upper income individuals, small-to-medium-size businesses and their owners, and professionals. The Company also offers products specially designed for the bank-owned life insurance (**"BOLI"**) and corporate-owned life insurance (**"COLI"**) markets.

Income, Benefits and Expenses

The Company derives its income principally from premiums on life insurance policies and annuity contracts, fee income generated from separate accounts and net investment income from general account assets. The Company's benefits and expenses consist principally of insurance benefits paid to policyholders and beneficiaries, reserves for future policyholder benefits and operating expenses, including marketing, administrative and distribution costs.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

Investments

One significant estimate inherent in the valuation of investments is the evaluation of other-than-temporary impairments (**"OTTI"**). The evaluation of OTTI is a quantitative and qualitative process, which is subject to judgment in the determination of whether declines in the fair value of investments are other than temporary. The key judgment is the determination of when to recognize the impairment. The Company generally takes the view that equities are impaired if they have traded below cost for more than one year. Since equities are carried at fair value, an impairment of an equity security has a direct impact to net income, however there is no impact to surplus. For bonds, impairments require more judgment. A company must demonstrate the ability and intent to hold a security for a period of time sufficient to allow for an anticipated recovery in value and needs to have a comprehensive process to review its portfolio on a regular basis to assess its holdings. The Company, as part of its impairment policy, performs both quantitative and qualitative analysis to determine if a decline in value was temporary. Factors considered in evaluating whether a decline in value is other than temporary include: (1) whether the decline is substantial; (2) duration that the fair value has been less than cost; (3) the financial condition and near-term prospects of the issuer; and (4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value. For those securities where the decline is considered temporary, the Company does not recognize an impairment when it has the ability and intent to hold until recovery.

Policy Reserves

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

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

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

RESULTS OF OPERATIONS

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

			Change	
	2016	**2015**	**$**	**%**
Income:				
Premiums	$ 12,770	$ 12,723	$ 47	0.4%
Net investment income	3,795	3,632	163	4.5
Other income	862	838	24	2.9
Total income	17,427	17,193	234	1.4
Benefits and expenses:				
Benefit payments	8,798	8,934	(136)	(1.5)
Additions to policy reserves	5,564	4,407	1,157	26.3
Net transfers to separate accounts	297	1,413	(1,116)	(79.0)
Adjustment in funds withheld	179	196	(17)	(8.7)
Operating expenses	1,420	1,501	(81)	(5.4)
Total benefits and expenses	16,258	16,451	(193)	(1.2)
Gain from operations before federal income taxes	1,169	742	427	57.5
Federal income taxes	279	266	13	4.9
Net gain from operations	890	476	414	87.0
Net realized capital (losses) gains, after taxes and transfers to the interest maintenance reserve ("IMR")	(112)	(79)	(33)	41.8
Net income	$ 778	$ 397	$ 381	96.0%

Net Income

Net income increased $381 million driven by higher net gain from operations of $414 million, partially offset by an increase in net realized capital losses of $33 million.

The following table summarizes pre-tax net gain by business segment for the years ended December 31, 2016 and 2015 ($ in millions):

						Change		
Business Segment		**2016**		**2015**		**$**		**%**
Investments Group	$	684	$	365	$	319		87.4%
Insurance and Agency Group		277		245		32		13.1
Corporate[1]		208		132		76		57.6
Gain from operations before federal income taxes		1,169		742		427		57.5
Federal income taxes		279		266		13		4.9
Net gain from operations	$	890	$	476	$	414		87.0%

[1] Corporate results primarily reflect investment income on assets not directly supporting policyholder liabilities and dividends received from subsidiaries.

- The Investments Group (investment, deferred and income annuities) experienced a $319 million increase in pre-tax net gain mainly due to:
  - higher sales on fixed deferred and immediate annuities, and lower sales on variable annuities. Unlike most insurance products (including variable annuities), there is currently no first year strain on income from sales of our fixed deferred and immediate annuities, as the initial reserve credit is higher than our initial acquisition expenses;
  - higher reserve credits on variable deferred annuities due to favorable equity market performance as compared to the prior year.
- The Insurance and Agency Group (universal life) pre-tax net gain increased $32 million from 2015 primarily due to lower strain as a result of lower sales and a decline in operating expenses. Unfavorable universal life mortality experience was mostly offset by favorable impacts from reserve assumption changes made during 2016.
- Corporate pre-tax net gain increased $76 million from the prior year primarily due to dividend income received from Madison Capital Funding LLC ("**MCF**") in 2016.
- Federal income taxes increased $13 million from the prior year. The slight increase was primarily due to higher pre-tax net gain, although that was mostly offset by a favorable settlement with the Internal Revenue Service (“**IRS**”) related to their audit of the 2008-2010 tax returns (see "-Federal Income Taxes" for more detail).

Premium Income

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

						Change		
		2016		**2015**		**$**		**%**
Fixed deferred annuity	$	6,128	$	5,382	$	746		13.9%
Variable deferred annuity		2,520		3,045		(525)		(17.2)
Income annuity		2,651		2,368		283		12.0
Other		38		49		(11)		(22.4)
Investments Group		11,337		10,844		493		4.5
Insurance and Agency Group		1,433		1,879		(446)		(23.7)
Total	$	12,770	$	12,723	$	47		0.4%

Investments Group premiums increased $493 million primarily driven by higher fixed deferred and immediate annuity sales from third-party distribution, partially offset by lower sales on variable deferred annuities.

The Insurance and Agency Group premiums decreased $446 million primarily resulting from lower sales of the Company's BOLI products.

Net Investment Income

Net investment income increased by $163 million primarily reflecting the growth in the Company's invested assets, partially offset by declining portfolio yields.

Other Income

Other income increased by $24 million, which includes an increase in mortality and expense fee income from separate accounts primarily due to higher separate accounts assets.

Benefit Payments

The Company's benefit payments primarily include death benefits, annuity benefits, surrender benefits, payments on supplemental contracts with life contingencies and interest on policy claims. The following table shows benefit payments by business operation for the years ended December 31, 2016 and 2015 ($ in millions):

			Change	
	2016	**2015**	**$**	**%**
Fixed deferred annuity	$ 4,402	$ 4,652	$ (250)	(5.4)%
Variable deferred annuity	2,236	2,270	(34)	(1.5)
Income annuity	1,392	1,287	105	8.2
Other	44	38	6	15.8
Investments Group	8,074	8,247	(173)	(2.1)
Insurance and Agency Group	724	687	37	5.4
Total	$ 8,798	$ 8,934	$ (136)	(1.5)%

The Investments Group benefit payments decreased $173 million primarily due to a decline in surrender benefits on fixed deferred annuities, partially offset by growth in the income annuities block of business.

The Insurance and Agency Group benefit payments increased $37 million primarily due to higher mortality as a result of the growing inforce.

Additions to Policy Reserves

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

	2016	2015	Change $	Change %
Fixed deferred annuity	$ 2,533	$ 1,490	$ 1,043	70.0%
Income annuity	1,717	1,580	137	8.7
Variable deferred annuity	130	(51)	181	nm
Other	24	35	(11)	(31.4)
Investments Group	4,404	3,054	1,350	44.2
Insurance and Agency Group	1,160	1,353	(193)	(14.3)
Total	$ 5,564	$ 4,407	$ 1,157	26.3%

nm = not meaningful

The Investments Group additions to policy reserves increased $1,350 million mainly driven by the growth in the fixed deferred annuity block of business.

The Insurance and Agency Group additions to policy reserves decreased $193 million primarily driven by lower BOLI sales in 2016.

In connection with its variable annuity products, the Company offers contractual guarantees in the form of a GMDB, GMAB, GFIB, and EBB.

Upon death of the insured, contracts with a GMDB feature provide benefits which are (1) the greater of current account value or premiums paid (adjusted for withdrawals) or (2) the highest account value on any contractually specified anniversary up to contractually specified ages (adjusted for withdrawals). The net amount at risk is defined as the current GMDB in excess of the current account balance at the balance sheet date. The GMAB feature allows a policyholder to receive the greater of the policy accumulation value or the accumulated net premiums (premiums less any withdrawals and loans) at the end of or after a waiting period. The net amount at risk is defined as the GMAB minus the current account balance at the balance sheet date. The GFIB feature provides a minimum fixed annuity payment guarantee that will start on a date chosen by the policyholder. Contracts with an optional EBB feature provide an additional death benefit equal to a percentage of earnings in the contract at the time of death, subject to certain maximum thresholds.

The table below details the Company's account value and net amount at risk for GMDB and GMAB guarantees at December 31, 2016 and 2015 (in millions). For contracts with GFIB and EBB guarantees the account value, net amount at risk, and reserves are not material.

	Account Value		Net Amount at Risk	
	2016	2015	2016	2015
GMDB	$ 28,144	$ 26,286	$ 220	$ 657
GMAB	$ 7,359	$ 6,775	$ 103	$ 233

The Company maintains reserves for these guarantees. Total general account reserves for the GMDB and GMAB features were $24 million and $35 million at December 31, 2016 and 2015, respectively.

The Company also offers fixed annuity contracts with a Guaranteed Lifetime Withdrawal Benefit feature and certain life products with a no lapse guarantee and a GMDB. The exposure under these guarantees is not significant to the Company's overall obligations.

Net Transfers to Separate Accounts

For statutory reporting purposes, transaction premiums, surrender benefits and reserves related to the separate accounts products are recorded on the equivalent line of the general account with an offset to net transfers to/from separate accounts for the variable product portion of these transactions. Net transfers also include transfers between the fixed (general account) investment options and the variable (separate accounts) investment options. Fees paid to the general account, however, are included in other income. The year over year variance of $1,116 million was primarily driven by a decrease in premiums and an increase in surrender benefit expense.

Operating Expenses

The Company's operating expenses include general insurance expenses, taxes (other than federal income taxes), licenses and fees and commissions. The majority of the general expenses are allocated from New York Life under a service agreement. Under the terms of the service agreement, the Company reimburses New York Life for certain services and facilities provided to the Company.

Federal Income Taxes

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

			Change	
	2016	**2015**	**$**	**%**
Pre-tax gain from operations at 35%	$ 409	$ 259	$ 150	57.9%
Investment tax credits[1]	(41)	(54)	13	(24.1)
Tax exempt income	(46)	(44)	(2)	4.5
Amortization of IMR	(18)	(28)	10	(35.7)
Tax basis versus statutory basis reserve adjustment	(2)	23	(25)	(108.7)
Deferred acquisition costs	(6)	5	(11)	nm
Other	(17)	105	(122)	(116.2)
Federal income taxes	$ 279	$ 266	$ 13	4.9%

nm = not meaningful

[1]Tax credits result primarily from investments in low income housing and alternative energy.

Federal income taxes increased slightly from the prior year as the higher pre-tax net gain was mostly offset by a $116 million year over year decrease in current taxes resulting from the favorable settlement with the IRS related to their audit of the 2008-2010 tax returns. Although most of the IRS items are considered timing differences and would partially be offset by the admissible portion of deferred tax benefits, statutory accounting principles do not recognize deferred taxes through net gain.

Net Realized Capital Gains (Losses)

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

	2016	2015	Change $	Change %
Bonds	$ 36	$ 157	$ (121)	(77.1)%
Common stocks	3	(8)	11	(137.5)
Other	1	2	(1)	(50.0)
Total before OTTI and capital gains tax	40	151	(111)	(73.5)
OTTI	(150)	(110)	(40)	36.4
Net capital gains before tax and transfers to the IMR	(110)	41	(151)	nm
Capital gains tax	21	(33)	54	(163.6)
Capital gains transferred to the IMR[1]	(23)	(87)	64	(73.6)
Net capital (losses) gains after-tax	$ (112)	$ (79)	$ (33)	41.8 %

nm = not meaningful

[1]Capital gains tax expense transferred to the IMR was $12 million and $47 million at December 31, 2016 and 2015, respectively.

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

	2016	2015	Change $	Change %
Bonds	$ (106)	$ (93)	$ (13)	14.0%
Limited partnerships and other invested assets	(39)	(13)	(26)	nm
Common and preferred stocks	(5)	(4)	(1)	25.0
Total OTTI	$ (150)	$ (110)	$ (40)	36.4%

nm = not meaningful

The increase in OTTI on bonds was primarily driven by impairments related to the energy sector resulting from lower oil and gas prices during the first half of the year. The increase in OTTI on limited partnerships and other invested assets was primarily driven by impairments consisting of mezzanine funds and wind energy limited partnerships. Overall, OTTI losses in both 2016 and 2015 represent less than 1% of total cash and invested assets.

FINANCIAL POSITION

ASSETS

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

	2016	2015	Change $	Change %
Invested assets:				
Bonds	$ 77,313	$ 71,792	$ 5,521	7.7%
Common and preferred stocks	1,090	541	549	101.5
Mortgage loans	12,984	12,097	887	7.3
Policy loans	867	877	(10)	(1.1)
Cash, cash equivalents and short-term investments	1,923	2,291	(368)	(16.1)
Limited partnerships and other invested assets	1,175	1,223	(48)	(3.9)
Other investments	565	380	185	48.7
Total cash and invested assets	95,917	89,201	6,716	7.5
Other than invested assets:				
Investment income due and accrued	653	613	40	6.5
Interest in annuity contracts	7,448	7,108	340	4.8
Other assets	477	538	(61)	(11.3)
Total other than invested assets	8,578	8,259	319	3.9
General account assets	104,495	97,460	7,035	7.2
Separate accounts assets	36,858	34,779	2,079	6.0
Total assets	$ 141,353	$ 132,239	$ 9,114	6.9%

Investment Portfolio

Invested assets are managed to support the liabilities of the Company's lines of business. The Company emphasizes asset/liability management and liquidity management across all product lines. Quality and diversification are essential building blocks in portfolio construction. The investment portfolios are specifically tailored to fit the unique interest rate sensitivities and cash flow characteristics associated with each of the product segments. In addition, the Company's parent takes a comprehensive enterprise view, taking measures to mitigate overall risk exposures at the corporate level.

Investment Risk Management

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

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

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

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

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

Bonds

Bonds represented 80.6% and 80.5% of total cash and invested assets at December 31, 2016 and 2015, respectively and consist of publicly traded and private placement debt securities. At December 31, 2016 and 2015, publicly traded bonds comprised 61.0% and 59.0% of the total bond portfolio, respectively. It is the Company's objective to maintain a high quality, well-diversified bond portfolio. The bond portfolio consists primarily of investment-grade corporate bonds, asset-backed and mortgage-backed securities and agency obligations.

An analysis of the credit quality, as determined by National Association of Insurance Commissioners (**"NAIC"**) designation, of the total bond portfolio at December 31, 2016 and 2015, is set forth in the following table ($ in millions):

NAIC Designation	Approximate Rating Agency Equivalent Designation	2016 Carrying Value	2016 % of Total Carrying Value	2015 Carrying Value	2015 % of Total Carrying Value
1	AAA to A–	$ 49,200	63.6%	$ 44,587	62.2%
2	BBB+ to BBB–	23,479	30.4	22,195	30.9
	Investment grade	72,679	94.0	66,782	93.1
3	BB+ to BB–	2,633	3.4	3,035	4.2
4	B+ to B–	1,743	2.3	1,809	2.5
5	CCC+ to CCC–	231	0.3	150	0.2
6	CC to D	27	—	16	—
	Below investment grade	4,634	6.0	5,010	6.9
	Total	$ 77,313	100.0%	$ 71,792	100.0%

Below investment grade bonds are comprised of investments in medium and lower grade obligations that are part of the Company's high yield investment objective to enhance overall portfolio yield and income. Additionally, investments that have been downgraded (i.e., fallen angels) from investment grade are included in this category and totaled $1,170 million and $1,073 million in 2016 and 2015, respectively. The Company applies the same prudent principles in managing its high yield portfolio, emphasizing diversification standards (such as limits on issuer, industry and geographic locations to minimize concentration risks), credit quality and liquidity. New York Life manages its aggregate exposure to investment risks against an approved risk budget and other internal limits and guidelines.

The following table presents the estimated fair value of the Company's total bond portfolio classified as performing, OTTI and temporarily impaired greater than 20% at December 31, 2016 and 2015. OTTI bonds are defined as bonds for which OTTI write-downs have been taken. Temporarily impaired greater than 20% is defined as bonds for which estimated fair value is below carrying value by more than 20% at the balance sheet date, but which continue to meet all their contractual obligations ($ in millions):

	2016 Carrying Value	2016 Estimated Fair Value	2016 % of Total Carrying Value	2015 Carrying Value	2015 Estimated Fair Value	2015 % of Total Carrying Value
Performing	$ 76,511	$ 78,422	99.0%	$ 70,417	$ 72,274	98.0%
OTTI	652	711	0.8	473	498	0.7
Temporarily impaired greater than 20%	150	108	0.2	902	638	1.3
Total	$ 77,313	$ 79,241	100.0%	$ 71,792	$ 73,410	100.0%

The Company's net unrealized gains on bonds of $1,928 million and $1,618 million at December 31, 2016 and 2015, respectively, were not reflected in the Company's Statutory Financial Statements since these bonds are held at amortized cost or the lower of amortized cost or fair value if in default (as defined by an NAIC Designation of 6) as required by Statutory Accounting Principles (**"SAP"**). Net unrealized gains were comprised of gross unrealized gains of $2,823 million and $2,725 million at December 31, 2016 and 2015, respectively, which were partially offset by gross unrealized losses totaling $895 million and $1,107 million at December 31, 2016 and 2015, respectively.

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

	2016			2015		
	Carrying Value	Estimated Fair Value	Unrealized Loss	Carrying Value	Estimated Fair Value	Unrealized Loss
Less than six months	$ 106	$ 82	$ 24	$ 840	$ 604	$ 236
Between six to nine months	—	—	—	32	19	13
Between nine to 12 months	2	1	1	1	1	—
Greater than 12 months	42	25	17	29	14	15
Total	$ 150	$ 108	$ 42	$ 902	$ 638	$ 264

Unrealized losses were $42 million and $264 million on temporarily impaired bonds with losses greater than 20% at December 31, 2016 and 2015, respectively, of which $3 million were reported as a reduction in statutory surplus as of December 31, 2016 and 2015. The decrease in unrealized losses was primarily due to OTTI taken during 2016, as well as improvements in the price of certain energy related securities resulting from the stabilization of oil prices.

Common and Preferred Stocks

At December 31, 2016, the total carrying value of the Company's equity portfolios was $1,090 million, of which $1,079 million were direct investments in unaffiliated common stocks and $11 million in preferred stocks.

Mortgage Loans

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

The mortgage loan portfolio, including both commercial and residential loans, was $12,984 million and $12,097 million at December 31, 2016 and 2015, respectively. The mortgage loan portfolio comprised 13.5% and 13.6% of the Company's total cash and invested assets at December 31, 2016 and 2015, respectively. Approximately 38.3% of the portfolio was secured by properties located in the states of California, New York and New Jersey. At December 31, 2016 and 2015, mortgages with principal balances of $100 million or greater accounted for 26.8% and 28.4%, respectively, of the aggregate principal balance of the commercial mortgage loan portfolio.

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

The Company's interests in commercial mortgage loans are held in the form of participations in mortgages originated or acquired by New York Life. Under the participation agreement for each such mortgage, 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 there from, 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.

Cash, Cash Equivalents and Short-Term Investments

Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at date of acquisition and are carried at amortized cost, which approximates fair value. Short-term investments consist of securities with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are carried at amortized cost, which approximates fair value. At December 31, 2016, cash, cash equivalents and short-term investments decreased primarily due to less holdings of U.S. Treasury bills and short-term discount notes.

Limited Partnerships and Other Invested Assets

Limited partnerships and other invested assets at December 31, 2016 and 2015 were as follows (in millions):

			Change	
	2016	2015	$	%
Affiliated non-insurance subsidiaries (MCF)	$ 573	$ 540	$ 33	6.1 %
Limited partnerships and limited liability companies	392	444	(52)	(11.7)
Low income housing tax credit investment (**"LIHTC"**)	116	130	(14)	(10.8)
Other invested assets	87	98	(11)	(11.2)
Collateralized third-party loans	7	11	(4)	(36.4)
Total limited partnerships and other invested assets	$ 1,175	$ 1,223	$ (48)	(3.9)%

Limited partnerships and limited liability companies primarily consist of partnership interests in mezzanine funds, wind energy investments and other equity investments. The limited partnership portfolio is well seasoned and diversified.

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. The Company's investment in LIHTC partnerships includes $32 million and $14 million of unfunded commitments at December 31, 2016 and 2015, respectively. During the years ended December 31, 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.

Collateralized third-party loans represent loans made to third parties underwritten by MCF in accordance with a participation agreement. Under the participation agreement, the Company assumes the performance risk on these loans, with no recourse against MCF.

Other Investments

Other investments at December 31, 2016 and 2015 were as follows ($ in millions):

	2016	2015	Change $	Change %
Derivatives	$ 440	$ 323	$ 117	36.2%
Real estate	58	57	1	1.8
Receivable for securities sold	65	—	65	nm
Collateral assets-derivatives	2	—	2	nm
Total	$ 565	$ 380	$ 185	48.7%

nm = not meaningful

The Company’s derivative asset carrying value at December 31, 2016 increased $117 million from 2015. While the Company reports derivatives on a gross basis, it is more meaningful to discuss the change in the net derivative position.

At December 31, 2016, the Company’s net derivative position was an asset of $404 million, a $109 million increase from the $295 million net asset position reported at December 31, 2015. The increase was mainly attributable to foreign currency derivatives hedging foreign denominated bonds as the U.S. dollar strengthened during 2016. These gains partially offset the losses the Company recorded on foreign denominated bonds at December 31, 2016 (see "Statutory Capital and Surplus-Change in Net Unrealized Gains on Investments").

Interest in Annuity Contracts

The Company owns all rights, title and interest in and to certain structured settlement annuity contracts issued by New York Life. At December 31, 2016 and 2015, the carrying value of these annuity contracts totaled $7,448 million and $7,108 million, respectively (see “- Liabilities, Obligations under Structured Settlement Agreements”).

Separate Accounts Assets

The Company has established both guaranteed and non-guaranteed separate accounts with varying investment objectives that are segregated from the Company's general account and are maintained for the benefit of separate accounts policyholders. Separate accounts assets are primarily invested in common stocks.

The year-over-year change in separate accounts assets was driven by the following (in millions):

	2016
Balance, beginning of year	$ 34,779
Policyholder premiums	1,477
Transfer from fixed account	1,420
Policyholder benefits	(2,561)
Net contributions from insurance operations	336
Reinvestment of net investment income	1,886
Realized and unrealized capital losses	701
Contributions from investment operations	2,587
Other - including fees paid to the general account	(844)
Total change	2,079
Balance, end of year	$ 36,858

The investment results of separate accounts assets generally pass through directly to the separate accounts policyholders. On certain separate account products, however, the Company does accept risk that the investment results of the separate account assets may not meet the guarantees provided under these products.

LIABILITIES

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

	2016	2015	Change $	Change %
Policy reserves	$ 80,438	$ 74,781	$ 5,657	7.6%
Deposit funds	1,106	981	125	12.7
Policy claims	151	188	(37)	(19.7)
Obligations under structured settlement agreements	7,448	7,108	340	4.8
Amounts payable under security lending agreements	675	600	75	12.5
Funds held under coinsurance - affiliated	4,154	4,255	(101)	(2.4)
Interest maintenance reserve	147	175	(28)	(16.0)
Asset valuation reserve ("AVR")	1,052	931	121	13.0
Other liabilities	1,539	1,184	355	30.0
Separate accounts transfers due and accrued	(938)	(887)	(51)	5.7
Separate accounts liabilities	36,856	34,777	2,079	6.0
Total liabilities	$ 132,628	$ 124,093	$ 8,535	6.9%

Policy Reserves

At December 31, 2016, policy reserves increased $5,657 million from 2015 primarily due to growing inforce as a result of continuous strong sales in 2016, net of policy benefits which primarily consisted of surrenders and death claims.

Obligations Under Structured Settlement Agreements

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 (see "-Assets, Interest in Annuity Contracts").

Funds Held Under Coinsurance - Affiliated

The decrease in funds held under coinsurance - affiliated was primarily related to decreases in ceded reserves and investment performance. In 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. Under this reinsurance agreement, the Company retains the assets in the relation to the reserves ceded to New York Life.

Derivatives (included in Other Liabilities)

At December 31, 2016, derivative gross liabilities increased $8 million from 2015. While derivatives are reported on a gross basis, it is more meaningful to discuss the change in the net derivative positions (see "-Assets, Other Investments").

Separate Accounts Transfers Due and Accrued

Separate accounts transfers primarily consist of net deposits, withdrawals and similar insurance activity transferred from or to the general account. These activities are netted and shown on the income statement of the general account.

Separate Accounts Liabilities

The separate accounts liabilities increase reflects the increase in separate accounts assets (see “-Assets, Separate Accounts Assets”). At December 31, 2016, the guaranteed separate accounts liability was $6,049 million and the non-guaranteed separate accounts liability was $30,807 million.

STATUTORY CAPITAL AND SURPLUS

Statutory capital and surplus was $8,725 million at December 31, 2016, an increase of $579 million, or 7.1% from the $8,146 million reported at December 31, 2015. The main drivers of the change in the Company’s capital and surplus are presented in the following table (in millions):

	2016
Capital and surplus, beginning of year	$ 8,146
Net income	778
Change in net unrealized gains on investments[1]	32
Change in reserve valuation basis	(72)
Change in net deferred income tax	(1)
Change in nonadmitted assets[2]	(36)
Change in asset valuation reserve	(121)
Other	(1)
Capital and surplus, end of year	$ 8,725

[1] Includes deferred capital gains tax benefit on net unrealized gains of $1 million.
[2] Excludes the increase in nonadmitted deferred taxes of $55 million reclassified to “change in net deferred income tax”.

Net income of $778 million was the primary driver of the increase in surplus in 2016 (see “Results of Operations -Net Income”). Other items impacting the Company’s 2016 surplus position, both positively and negatively, include the following:

Change in Net Unrealized Gains on Investments

Net unrealized gains on investments (gross of deferred taxes) resulted in an increase to surplus of $31 million ($32 million net of deferred taxes). The following chart shows unrealized gains (losses) by asset type at December 31, 2016 (in millions):

	2016
Derivative instruments[1]	$ 124
Equity securities	56
Foreign exchange losses[2]	(194)
Other	45
Total net unrealized gains	$ 31

[1] Primarily driven by net gains on foreign currency hedges.
[2] Includes $189 million in losses on foreign denominated bonds.

Change in Reserve Valuation Basis

In 2016, the Company recorded a change in reserve valuation basis resulting from changes in the calculation for no lapse guaranteed universal life reserves. This change resulted in an increase in statutory reserves and a corresponding decrease in surplus of $72 million.

Change in AVR

The AVR liability increased $121 million, which mainly consisted of an $89 million contribution to the equity component (primarily other invested assets and common stocks), and a $32 million contribution to the default component (primarily bonds and mortgage loans) as required under the NAIC AVR formula.

LIQUIDITY SOURCES AND REQUIREMENTS

Liquidity Sources

The Company’s principal cash inflows from its insurance activities come from annuity considerations, life insurance premiums and deposit funds. The Company’s principal cash inflows from investment activities result from proceeds on sales, repayments of principal, maturities of invested assets, and investment income. The following table sets forth the total available liquidity at market value of the Company from liquid assets and other funding sources at December 31, 2016 and 2015 (in millions):

	2016	2015
Cash and short-term investments:		
Cash and cash equivalents	$ 1,743	$ 2,121
Short-term investments	247	171
Less: security lending outstanding and other short-term liabilities	(1,141)	(697)
Net cash and short-term investments	849	1,595
Liquid bonds:		
U.S. government and agency bonds	3,162	1,785
Public corporate investment-grade bonds and collateralized mortgage obligations[1]	39,373	36,168
Liquid bonds	42,535	37,953
Equities:		
Public equities portfolio	1,060	509
Total liquid assets	44,444	40,057
Other funding sources:		
Federal Home Loan Bank of Pittsburgh (**"FHLB of Pittsburgh"**)	4,550	4,273
Commercial paper facility	490	490
Credit agreement with New York Life	490	490
Total other funding sources	5,530	5,253
Total available liquidity	$ 49,974	$ 45,310

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

Liquidity Uses

The Company’s principal cash outflows primarily relate to payment of benefits, policy surrenders, withdrawals and loans associated with its various life insurance and annuity products, operating expenses, and income taxes.

A primary liquidity concern with respect to life insurance and annuity products is the risk of early policyholder and contract holder withdrawals. The Company includes provisions in certain of its contracts that are designed to discourage early withdrawal of policyholder funds. Such provisions include surrender charges, market value adjustments and prohibitions or restrictions on withdrawals. The Company closely monitors its liquidity requirements in order to match cash inflows with expected cash outflows, and employs an asset/liability management approach tailored to the specific requirements of each product line, based upon the return objectives, risk tolerance, liquidity, tax and regulatory requirements of the underlying products. The Company also regularly conducts liquidity stress tests and monitors early warning indicators of potential liquidity issues.

The following table summarizes the total direct life and annuity reserves and deposit funds and the total related amounts that have surrender privileges and are redeemable for cash by policyholders at December 31, 2016 and 2015 (in millions):

	2016			2015		
	Direct Reserves	Reserves That Can Be Surrendered	Cash Surrender Value	Direct Reserves	Reserves That Can Be Surrendered	Cash Surrender Value
Policy reserves	$ 84,988	$ 67,261	$ 63,800	$ 78,710	$ 63,489	$ 61,323
Deposit funds	1,106	175	175	981	115	115
Total	$ 86,094	$ 67,436	$ 63,975	$ 79,691	$ 63,604	$ 61,438

Cash Flows

Net cash from operating activities for the years ended December 31, 2016 and 2015 was $6,382 million and $4,909 million, respectively.

Net cash applied to financing and miscellaneous sources was $164 million and $158 million for the years ended December 31, 2016 and 2015, respectively. The net cash applied in both 2016 and 2015 was primarily attributable to a decrease in amounts payable on reinsurance.

In both 2016 and 2015, the Company used the cash flow generated by its operations to invest primarily in fixed income securities. Net cash used by investing activities was $6,586 million and $3,104 million for the years ended December 31, 2016 and 2015, respectively.

FINANCING

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 the Company had no outstanding loan balance.

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, the credit facility was not used, no interest was paid and there was no outstanding balance due.

FHLB of Pittsburgh

On February 18, 2015, the Company became a member of the FHLB of Pittsburgh by purchasing $24 million of capital stock. Membership in the FHLB of Pittsburgh provides the Company with a significant source of alternative liquidity. 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. During 2016, the Company borrowed $10 million. At December 31, 2016, the Company had no outstanding loan balance.

COMMITMENTS

At December 31, 2016, the Company had commitments to extend credit under commercial mortgage loan agreements totaling $508 million, at both fixed and variable rates of interest. These commitments are diversified by property type and geographic location.

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

The Company had unfunded commitments on limited partnerships, limited liability companies, and other invested assets amounting to $257 million at December 31, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

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

Guarantees

In accordance with the revision to SSAP No. 5R "Liabilities, Contingencies and Impairments of Assets" (**"SSAP 5R"**) at the inception of a guarantee (except unlimited guarantees and guarantees made to or on behalf of wholly owned subsidiaries), the Company recognizes an initial liability at fair value for the obligations it has undertaken, regardless of the probability of performance under the guarantee. This includes guarantees made on behalf of affiliates other than wholly owned subsidiaries unless the guarantee is deemed unlimited. At December 31, 2016 and 2015, the Company had no such guarantees.

On July 1, 2002, the Company transferred all of the liabilities and assets of the Company's Taiwan Branch to New York Life Insurance Taiwan Corporation (**"Taiwan Corporation"**), an indirect subsidiary of New York Life that was sold to Yuanta Financial Holding Co., Ltd. (**"Yuanta"**) on December 31, 2013. Taiwan Corporation is liable for all policyholder obligations on its balance sheet, including policies issued prior to July 2002, when Taiwan Corporation was a branch of the Company. As part of the sale agreement, Yuanta has guaranteed Taiwan Corporation's obligation with respect to these policyholder obligations. However, the Company, under Taiwan law, also remains contingently liable for these policies in the remote event that neither Taiwan Corporation nor Yuanta meets its obligations. This contingent liability of the Company has not been recognized on the Statutory Statements of Financial Position because it does not meet the probable and estimable criteria of SSAP 5R.

Liens

Several commercial banks have customary security interests in certain assets of the Company to secure potential overdrafts and other liabilities of the Company that may arise under custody, securities lending and other banking agreements with such banks. There were no liens in force at December 31, 2016 and 2015.

OUTLOOK

The Company maintains various business strategies to meet the challenges of industry and regulatory environmental pressures. The Company's strategies include product diversification, ongoing commitment to enhance customer services, and through New York Life, fully engaged management of its high quality career agency force, while selectively developing alternative distribution channels. In addition, through New York Life, the Company actively seeks to improve technology and capitalize on its brand name and customer recognition. The Company believes that this approach offers a strong value proposition to our customers and provides the Company with a basis for continued growth.

In addition to its portfolio of universal life insurance, variable universal life insurance and fixed and variable annuity products, the Company offers an array of income annuity products with features that are focused on helping to address America's retirement challenge. These offerings leverage the Company's financial strength and innovation and could not come at a more critical time. Millions of baby boomers are approaching retirement age; but while life expectancy is increasing, traditional sources of retirement income are less secure than they have been. Providing a safe, secure lifetime income represents an important business opportunity for our Company but, more than that, it offers practical, meaningful solutions to the uncertainties now faced by so many older Americans who are looking forward to longer and more active retirements than previous generations.

The Company is well positioned to meet its financial goals within changing economic climates and industry pressures as a result of New York Life management's strategic decisions. The Company continues to prioritize its first-rate career agency force that provides our customers with essential expertise regarding our broad, diversified array of life and annuity products. The Company and its agents remain focused on our longstanding tradition of policyholder service.

Furthermore, combined with its growth strategy, the Company has a commitment to strong capitalization and a high quality asset portfolio, which is designed to meet policyholder obligations while maintaining the highest ratings currently issued to life insurers from the various agencies.

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