

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**(GAAP Basis)**

**December 31, 2017 and 2016**

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## Report of Independent Auditors

To the Board of Directors of New York Life Insurance Company:

We have audited the accompanying consolidated financial statements of New York Life Insurance Company and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of operations, of comprehensive income, of equity and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York Life Insurance Company and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*PricewaterhouseCoopers LLP*

March 8, 2018

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
	(in millions)	
<b>Assets</b>		
Fixed maturities (includes securities pledged to creditors of \$1,325 and \$1,298 in 2017 and 2016, respectively):		
Available-for-sale, at fair value	\$ 180,645	\$ 170,023
Securities, at fair value	17,982	16,459
Equity securities:		
Securities, at fair value	3,744	3,062
Unaffiliated, available-for-sale, at fair value	201	153
Affiliated	10	23
Mortgage loans (includes mortgage loans carried at fair value of \$1,254 and \$1,329 in 2017 and 2016, respectively), net of allowances	30,990	29,483
Policy loans	11,787	11,510
Other investments	23,273	23,574
Total investments	<u>268,632</u>	<u>254,287</u>
Cash and cash equivalents	6,387	6,198
Deferred policy acquisition costs	6,985	6,971
Other assets (includes other assets carried at fair value of \$3,701 and \$3,824 in 2017 and 2016, respectively)	12,165	11,458
Separate account assets	42,947	38,964
<b>Total assets</b>	<u>\$ 337,116</u>	<u>\$ 317,878</u>
<b>Liabilities</b>		
Policyholders' account balances	\$ 112,223	\$ 106,331
Future policy benefits (includes liabilities carried at fair value of \$8,326 and \$8,603 in 2017 and 2016, respectively)	118,901	112,554
Dividends payable to policyholders	1,255	1,256
Policy claims	1,309	1,272
Debt (includes debt carried at fair value of \$1,786 and \$2,022 in 2017 and 2016, respectively)	5,717	6,093
Collateral received on securities lending	1,353	1,328
Other liabilities (includes other liabilities carried at fair value of \$4,981 and \$5,129 in 2017 and 2016, respectively)	14,114	14,597
Separate account liabilities	42,947	38,964
<b>Total liabilities</b>	<u>297,819</u>	<u>282,395</u>
<b>Equity</b>		
Accumulated other comprehensive income	2,319	1,083
Retained earnings	33,477	31,079
<b>Total New York Life equity</b>	<u>35,796</u>	<u>32,162</u>
Non-controlling interest	3,501	3,321
<b>Total equity</b>	<u>39,297</u>	<u>35,483</u>
<b>Total liabilities and equity</b>	<u>\$ 337,116</u>	<u>\$ 317,878</u>

The accompanying notes are an integral part of the consolidated financial statements.

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	(in millions)	
<b>Revenues</b>		
Premiums	\$ 14,749	\$ 14,124
Fees - universal life and annuity policies	1,667	1,594
Net investment income	10,767	9,980
Net investment gains (losses):		
Other-than-temporary impairments on fixed maturities	(121)	(280)
Other-than-temporary impairments on fixed maturities recognized in accumulated other comprehensive income	28	32
All other net investment gains	1,666	949
Total net investment gains	1,573	701
Management fees and other income	1,572	1,509
<b>Total revenues</b>	<b>30,328</b>	<b>27,908</b>
<b>Expenses</b>		
Policyholder benefits	9,650	9,218
Increase in liabilities for future policy benefits	5,975	5,646
Interest credited to policyholders' account balances	2,896	2,808
Dividends to policyholders	1,950	1,930
Operating expenses	6,592	6,184
<b>Total expenses</b>	<b>27,063</b>	<b>25,786</b>
Income before income tax expense and non-controlling interest	3,265	2,122
Income tax expense	226	484
<b>Net income</b>	<b>3,039</b>	<b>1,638</b>
Non-controlling interest	(278)	(266)
<b>Net income attributable to New York Life</b>	<b>\$ 2,761</b>	<b>\$ 1,372</b>

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>(in millions)</b>	
<b>Net income</b>	<b>\$ 3,039</b>	<b>\$ 1,638</b>
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	111	(84)
Foreign currency translation adjustment, net	111	(84)
Net unrealized investment gains:		
Net unrealized investment gains arising during the period	977	298
Less: reclassification adjustment for net unrealized investment gains included in net income	10	73
Net unrealized investment gains, net	967	225
Benefit plans:		
Losses and prior service costs arising during the period	(282)	(197)
Less: amortization of losses and prior service costs included in net periodic benefit costs	(77)	(79)
Benefit plans, net	(205)	(118)
Other comprehensive income, net of tax	873	23
Comprehensive income	3,912	1,661
Less: comprehensive income attributable to non-controlling interests	(278)	(266)
<b>Comprehensive income attributable to New York Life</b>	<b>\$ 3,634</b>	<b>\$ 1,395</b>

The accompanying notes are an integral part of the consolidated financial statements.

NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY  
 Years Ended December 31, 2017, 2016 and 2015  
 (in millions)

	Accumulated Other Comprehensive Income	Retained Earnings	New York Life Equity	Non- Controlling Interest	Total Equity
<b>Balance, December 31, 2015</b>	\$ 1,060	\$ 29,707	\$ 30,767	\$ 3,277	\$ 34,044
Contributions from non-controlling interests	—	—	—	84	84
Consolidation/deconsolidation of less than 100% owned entities	—	—	—	(306)	(306)
Net income	—	1,372	1,372	266	1,638
Other comprehensive income, net of tax	23	—	23	—	23
Total comprehensive income (loss)	23	1,372	1,395	266	1,661
<b>Balance, December 31, 2016</b>	1,083	31,079	32,162	3,321	35,483
Distributions from non-controlling interests	—	—	—	(84)	(84)
Consolidation/deconsolidation of less than 100% owned entities	—	—	—	(14)	(14)
Net income	—	2,761	2,761	278	3,039
Other comprehensive income, net of tax	873	—	873	—	873
Total comprehensive income	873	2,761	3,634	278	3,912
Change in accounting principle - reclass of stranded tax effects	363	(363)	—	—	—
<b>Balance, December 31, 2017</b>	\$ 2,319	\$ 33,477	\$ 35,796	\$ 3,501	\$ 39,297

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2017	2016
	(in millions)	
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 3,039	\$ 1,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51	186
Net capitalization of deferred policy acquisition costs	(186)	(209)
Universal life and annuity fees	(1,024)	(973)
Interest credited to policyholders' account balances	2,896	2,808
Capitalized interest and dividends reinvested	(314)	(253)
Net investment gains	(1,572)	(701)
Equity in earnings of limited partnerships	(638)	(451)
Deferred income taxes	246	(7)
Net change in unearned revenue liability	9	21
Other	140	112
Changes in:		
Other assets and other liabilities	(1,193)	488
Trading securities	1	7
Acquisitions of investments within consolidated investment companies	(2,137)	(1,989)
Dispositions of investments within consolidated investment companies	2,443	1,330
Policy claims	33	110
Future policy benefits	5,836	5,414
Book overdrafts	(94)	81
<b>Net cash provided by operating activities</b>	<b>7,536</b>	<b>7,612</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from:		
Sale of available-for-sale fixed maturities	7,426	7,499
Maturity and repayment of available-for-sale fixed maturities	20,388	19,070
Sale of equity securities	299	304
Repayment of mortgage loans	3,322	3,148
Sale of other invested assets	2,415	2,139
Sale of trading securities	3,511	2,315
Maturity and repayment of trading securities	838	661
Repayment of commercial loans	3,571	2,940
Cost of:		
Available-for-sale fixed maturities acquired	(35,622)	(37,192)
Equity securities acquired	(237)	(16)
Mortgage loans acquired	(4,778)	(4,987)
Acquisition of other invested assets	(2,469)	(1,602)
Acquisition of trading securities	(5,486)	(4,561)
Commercial loans acquired	(3,542)	(3,132)
Securities purchased under agreements to resell	(80)	73
Cash collateral received (paid) on derivatives	151	(71)
Policy loans	(276)	(178)
Capital expenditures	(103)	(102)
Consolidation and deconsolidation of entities	20	(128)
Other	—	4
<b>Net cash used in investing activities</b>	<b>(10,652)</b>	<b>(13,816)</b>
<b>Cash Flows From Financing Activities:</b>		
Policyholders' account balances:		
Deposits	21,862	19,863
Withdrawals	(16,334)	(14,214)
Net transfers to the separate accounts	(1,664)	(1,480)
Contributions from non-controlling interests	776	220
Distributions to non-controlling interests	(860)	(136)
Increase in loaned securities	25	151
Derivatives containing a financing element	(387)	(174)
Securities sold under agreements to repurchase	—	(5)
Paydowns from debt	(1,146)	(516)
Proceeds from issuance of debt	1,035	875
Other	(29)	9
<b>Net cash provided by financing activities</b>	<b>3,278</b>	<b>4,593</b>
Effect of exchange rate changes on cash and cash equivalents	27	(23)
Net increase (decrease) in cash and cash equivalents	189	(1,634)
Cash and cash equivalents, beginning of year	6,198	7,832
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,387</b>	<b>\$ 6,198</b>

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**December 31, 2017 and 2016**

**NOTE 1 - NATURE OF OPERATIONS**

New York Life Insurance Company (“New York Life”), a mutual life insurance company domiciled in New York State, and its subsidiaries (“the Company”) offer a wide range of insurance and investment products and services including life insurance, annuities, long-term care, insurance pension products, disability insurance, mutual funds, securities brokerage, financial planning, trust services, capital financing, and investment advisory services. The Company offers its insurance and annuity products throughout the United States and its territories, Mexico and Canada, primarily through the Company’s career agency force, but also through third party banks, brokers and independent financial advisors. The Company provides investment management and advisory services in the United States, Europe, Asia and Australia.

**NOTE 2 - BASIS OF PRESENTATION**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and reflect the consolidation of the parent company with the entities over which the Company exercises control, including its majority owned and controlled insurance and non-insurance subsidiaries and variable interest entities (“VIEs”) in which the Company is considered the primary beneficiary. Refer to Note 3 - Significant Accounting Policies for further discussion. All intercompany transactions have been eliminated in consolidation.

The New York State Department of Financial Services (the “Department”) recognizes only statutory accounting practices (“SAP”) for determining and reporting the financial position and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. Accounting practices used to prepare statutory financial statements for regulatory filings of life insurance companies differ in certain instances from GAAP. Refer to Note 22 - Statutory Financial Information for further discussion.

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining deferred policy acquisition costs (“DAC”) and related amortization; measurement of goodwill and other intangible assets and any related impairment; valuation of investments including derivatives and recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments**

Fixed maturity investments classified as available-for-sale are reported at fair value. For a discussion on the valuation approach and methods for fixed maturities reported at fair value, refer to Note 9 - Fair Value Measurements. The amortized cost of fixed maturities is adjusted for amortization of premium and accretion of discount. Interest income, as well as the related amortization of premium and accretion of discount, is included in Net investment income. The Company accrues interest income on fixed maturities to the extent it is deemed collectible and the security continues to perform under its original contractual terms. In the event collectability of interest is uncertain, accrual of interest income will cease and income will be recorded when and if received.

Unrealized gains and losses on available-for-sale fixed maturity investments are reported as net unrealized investment gains or losses in accumulated other comprehensive income ("AOCI"), net of deferred taxes and related adjustments.

Included within fixed maturity investments are mortgage-backed and asset-backed securities. 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 mortgage-backed and asset-backed 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 mortgage-backed and asset-backed 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 (i.e. interest only securities), the effective yield is adjusted prospectively for any changes in estimated cash flows.

The cost basis of fixed maturities is adjusted for impairments in value deemed to be other-than-temporary, with a loss recognized in Net investment gains or losses. The new cost basis is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an OTTI, impaired fixed maturities are accounted for as if purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

Factors considered in evaluating whether a decline in the value of fixed maturities is other-than-temporary include: (1) whether the decline is substantial; (2) the duration of time that the fair value has been less than cost; and (3) the financial condition and near-term prospects of the issuer. Mortgage-backed and asset-backed securities rated below AA at acquisition are deemed other-than-temporary impaired securities when the fair value is below amortized cost and there are negative changes in estimated future cash flows.

With respect to fixed maturities in an unrealized loss position, an OTTI is recognized in earnings when it is anticipated that the amortized cost will not be recovered. The entire difference between the fixed maturity's cost and its fair value is recognized in earnings only when either the Company (1) has the intent to sell the fixed maturity security or (2) more likely than not will be required to sell the fixed maturity security before its anticipated recovery. If these conditions do not exist, an OTTI would be recognized in earnings ("credit loss") for the difference between the amortized cost basis of the fixed maturity and the net present value of projected future cash flows expected to be collected. The difference between the fair value and the present value of projected future cash flows expected to be collected represents the portion of OTTI related to other-than credit factors ("non-credit loss") and is recognized in AOCI. The net present value is calculated by discounting the Company's

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity prior to impairment.

The determination of cash flow estimates in the net present value calculation 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, 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 the recovery value if the Company determines that the security is dependent on the liquidation of the collateral for recovery.

Equity securities which are deemed unaffiliated are carried at fair value. For a discussion on valuation approach and methods for equity securities refer to Note 9 - Fair Value Measurements. Unrealized gains and losses on equity securities classified as available-for-sale are recorded as net unrealized investment gains or losses in AOCI, net of deferred taxes and related adjustments.

When it is determined that a decline in value of an available-for-sale equity security is other-than-temporary, the cost basis of the equity security is reduced to its fair value, with the associated realized loss reported in Net investment gains or losses. The new cost basis is not adjusted for subsequent increases in estimated fair value. Factors considered in evaluating whether a decline in value of an available-for-sale equity security is other-than-temporary include: (1) whether the decline is substantial; (2) the duration that the fair value has been less than cost; and (3) the financial condition and near-term prospects of the issuer. The Company also considers in its OTTI analysis its intent and ability to hold a particular equity security for a period of time sufficient to allow for the recovery of its value to an amount equal to or greater than cost.

Affiliated equity securities represent holdings in entities where there is at least a 20% ownership and where the Company has the ability to exercise significant influence through its relationship, and are accounted for by the equity method of accounting. Accordingly, respective net earnings or losses are included in Net income.

Securities at fair value, both fixed maturity and equity securities, include investments for which the fair value option ("FVO") was elected and investments that are considered to be actively traded or held for only a short period of time. The FVO primarily includes and is generally elected for invested assets that support certain insurance and reinsurance contracts for which the investment results associated with these products are expected to ultimately accrue to contract holders, invested assets that host embedded derivatives, and certain purchases of 20% or more of the outstanding shares or units of mutual funds, trusts or similar financial instruments for which the Net Asset Value ("NAV") is calculated and published on either a monthly or daily basis. Changes in fair value of the Securities at fair value are included in Net investment gains or losses while interest and dividend income is reported in Net investment income. The Company accrues interest income to the extent it is deemed collectible and the security continues to perform under its original contractual terms. In the event collectability of interest is uncertain, accrual of interest income will cease and income will be recorded when and if received. Cash flows from acquiring and disposing of the FVO invested assets are classified in Cash flows from investing activities. Cash flows for securities actively traded are classified in Cash flows from operating activities.

Mortgage loans are generally carried at unpaid principal balances, net of discounts, premiums, deferred origination fees, and valuation allowances, and are collateralized. For loans carried at unpaid principal balances,

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

specific valuation allowances are established for the excess carrying value of the mortgage loan over the estimated fair value of the collateral, 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 document. The Company also has a general valuation allowance for probable incurred but not specifically identified losses. The general valuation allowance is determined by applying a factor against the commercial and residential mortgage loan portfolios, excluding loans for which a specific allowance has already been recorded, to estimate potential losses in each portfolio. The general allowance factor for the commercial mortgage loan portfolio is based on the Company's historical loss experience as well as industry data regarding commercial loan delinquency rates. The Company analyzes industry data regarding specific credit risk based on geographic locations and property types as well as probability of default, timing of default, and loss severity for each loan in a given portfolio. The general allowance factor for the residential mortgage loan portfolio is also based on the Company's historical loss experience as well as expected defaults and loss severity of loans deemed to be delinquent. Changes to the specific and general valuation allowances are reflected in Net investment gains or losses.

The Company elected the fair value option for mortgage loans that support certain of the Company's reinsurance contracts for which the investment results associated with these contracts are expected to ultimately accrue to the reinsured policies. These mortgage loans are carried at fair value. The changes in the fair value of mortgage loans carried at fair value are included in Net investment gains or losses while the interest income is reported in Net investment income. For a discussion on valuation approach and methods for mortgage loans reported at fair value, refer to Note 9 - Fair Value Measurements.

For commercial and residential mortgage loans, the Company accrues interest income on loans to the extent it is deemed collectible and the loan continues to perform under its original or restructured contractual terms. The Company places loans on non-accrual status and ceases to recognize interest income when management determines that 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 loans where interest payments have been deemed uncollectible are recognized on a cash basis and recorded as interest income. 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 loan has investment income due and accrued that is ninety days past due, the investment income shall continue to accrue, if deemed collectible.

Commercial mortgage and other loans are occasionally restructured in a troubled debt restructuring ("TDR"). The Company assesses loan modifications on a case-by-case basis to evaluate whether a TDR has occurred. A specific valuation allowance may be established for mortgage loans restructured in a TDR for the excess carrying value of the mortgage loan over the estimated fair value of the collateral.

The Company closely monitors mortgage loans with the potential for specific valuation allowance by considering a number of factors. For commercial mortgage loans, these factors include, but are not limited to, loan to value ("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. Residential mortgage loans that are sixty or more days delinquent are monitored for potential specific valuation allowance.

Policy loans are carried at the unpaid principal balance of the loan. Because these loans are effectively collateralized by the surrender value of the underlying policies, a valuation allowance is established only when loan balances, including capitalized interest, exceeds the related policy's cash surrender value. Interest income is recorded as earned and included in Net investment income.

Other investments consist primarily of direct investments in limited partnerships and limited liability companies, investments of consolidated investment companies, derivatives (see discussion on derivative instruments below),

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

securities purchased under agreement to resell, short-term investments, real estate, senior secured commercial loans and loans of certain consolidated VIEs. Investments in limited partnerships and limited liability companies are accounted for using the equity method of accounting. The financial statements of equity method investees are usually not received sufficiently timely for the Company to apply the equity method at each reporting period. Therefore, the equity pick-up on these investments has been recorded on a one to three-month lag with an estimate of each investee's fourth quarter results recorded at year-end. The Company eliminated the estimate process in 2017 and moved to a true quarter lag as allowed under current authoritative guidance. The Company did not restate its prior year financial statements as the impact from the change in accounting policy was deemed immaterial to prior year results and current year earnings. Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are carried at fair value. Refer to Note 6 – Investments, for details of Other investments by component.

In many cases, limited partnerships and limited liability companies that the Company invests in qualify as investment companies and apply specialized accounting practices. The Company retains this specialized accounting practice in consolidation and for the equity method. For limited partnerships accounted for under the equity method, unrealized gains and losses are recorded in Net investment income. For consolidated limited partnerships, the underlying investments, which may consist of various classes of assets, are aggregated and stated at fair value in Other investments.

Real estate held for the production of income and home office properties are stated at cost less accumulated depreciation. Real estate held-for-sale is stated at the lower of cost less accumulated depreciation or fair value, less estimated costs to sell, which may result in an other-than-temporary impairment recorded in Net investment gains or losses. Depreciation of real estate 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 lives. Any encumbrances on real estate are recorded in Debt.

Senior secured commercial loans that management has the intent and ability to hold until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge off or loss reserve, net of any deferred fees on originated loans, or unamortized premiums or discounts on purchased loans. The Company assesses its loans on a monthly basis for collectability in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, and prevailing economic conditions. Specific loans are considered for impairment when it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan document. Factors considered by management in determining impairment include payment status and the financial condition of the borrower. Impaired loan measurement may be based on the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. A loss reserve is established for the calculated impairment. A general valuation allowance for probable incurred but not specifically identified losses is determined for the remainder of the portfolio. These loans are assigned internal risk ratings and the Company utilizes a specific reserve percentage for each category of risk rating. The loss reserve rate is multiplied by outstanding loans in each related risk category to determine the general reserve on these loans. Changes to the specific and general valuation allowances are reflected in Net investment gains or losses.

At the time of the funding of a loan, management determines the amount of the loan that will be held-for-sale. The syndication amounts have historically been sold within one year. Loans held-for-sale are carried at the lower of cost or fair value on an individual asset basis.

Cash equivalents include investments that have remaining maturities of three months or less at date of purchase and are carried at fair value.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Net investment gains or losses on sales for all investments are generally computed using the specific identification method.

FVO election provides entities with an alternative to use fair value as the initial and subsequent accounting measurement attribute for assets and liabilities that meet the definition of a financial asset or liability. The decision to elect the fair value option is determined on an instrument by instrument basis and is applied to an entire instrument. The decision is irrevocable once elected. Refer to Note 6 - Investments for more information on the fair value option.

**Derivative Instruments**

Derivatives are recorded at fair value as assets, within Other investments or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The classification of changes in the fair value of derivatives depends on the characteristics of the transaction, including whether it qualifies and is designated for hedge accounting. Changes in fair value for derivatives that do not qualify or are not designated for hedge accounting are included in Net investment gains or losses.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception by detailing the particular risk, management objective and strategy for the hedge. This includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed and ineffectiveness is measured. 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 hedging relationship is considered highly effective if the changes in fair value or cash flows of the hedging instrument are within 80% to 125% of the inverse changes in the fair value or cash flows of the hedged item. The Company formally assesses effectiveness of its hedging relationships both at the hedge inception and on a quarterly basis over the life of the hedge relationship in accordance with its risk management policy. The Company continually assesses the credit standing of the derivative counterparty and, if the counterparty is deemed to be no longer creditworthy, the hedge relationship will no longer be considered effective.

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

In order to mitigate counterparty credit risk, the Company receives collateral from counterparties with derivatives in a net positive fair value position, which is included in Other liabilities. The Company also posts collateral for derivatives that are in a net liability position, which is included in Other assets. Refer to Note 7 - Derivative Instruments and Risk Management.

***Cash Flow Hedges***

The Company accounts for the following as cash flow and foreign currency hedges, when they qualify for hedge accounting under the requirements of the authoritative guidance: (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 and liabilities; and (3) interest rate swaps to hedge the interest rate risk associated with forecasted transactions.

When a derivative is designated as a cash flow hedge and determined to be highly effective, changes in fair value are recorded as unrealized gains or losses in AOCI and deferred until earnings are affected by the variability of cash flows being hedged (e.g., when periodic settlements on a variable-rate asset or liability are recorded in

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**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

earnings). At that time, these unrealized gains or losses are reclassified to earnings to the same line item as the associated hedged item's cash flows. Any ineffectiveness is immediately recognized in earnings and included in Net investment gains or losses.

For cash flow hedges of forecasted transactions, hedge accounting is discontinued when it is probable that the forecasted transaction will not occur. In these cases, the gains and losses that were in AOCI will be recognized immediately in Net investment gains or losses and the derivative will continue to be carried at its fair value on the balance sheet, with changes in its fair value recognized in Net investment gains or losses. When the hedged forecasted transaction is no longer probable, but is reasonably possible, the gain or loss remains in AOCI and will be recognized when the transaction affects earnings; however, prospective hedge accounting for the transaction is terminated. In all other cash flow hedge situations in which hedge accounting is discontinued, the unrealized gains or losses that were in AOCI will be recognized when the originally hedged cash flows affect earnings. Prospective changes in fair value will be recognized in Net investment gains or losses.

When a derivative is designated as a foreign currency cash flow hedge and is determined to be highly effective, changes in fair value are recorded as unrealized gains or losses in AOCI. The change in fair value of the derivative relative to the change in foreign exchange rates affect earnings in the same period as the foreign exchange transaction gains and losses on the underlying hedged item in net investment gains or losses. Any ineffectiveness is immediately recognized in earnings and included as Net investment gains or losses.

***Net Investment Hedges***

For derivatives that hedge the foreign currency exposure of a net investment in foreign operations, the accounting treatment will depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in OCI as part of the foreign currency translation adjustment. Any ineffective portion of the change in fair value of the derivative is reflected in Net investment gains or losses.

***Embedded Derivatives***

The Company may enter into contracts that are not themselves derivative instruments but contain embedded derivatives. For each contract, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to those of the host contract and determines whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative. Such embedded derivatives are recorded with the associated host contract at fair value and changes in their fair value are recorded in earnings. In certain instances, the Company may elect to carry the entire contract at fair value.

For further information on the Company's derivative instruments and related hedged items and their effect on the Company's financial position, financial performance, and cash flows, refer to Note 7 - Derivative Instruments and Risk Management.

**Variable Interest Entities**

In the normal course of its investment and investment management activities, the Company enters into relationships with various special purpose entities ("SPEs") and other entities that are deemed to be VIEs. A VIE

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity's expected losses and the right to receive the entity's expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE.

The Company is deemed a primary beneficiary of a VIE if it has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the VIEs and (2) the obligation to absorb losses of or the right to receive benefits from the VIE that could be potentially significant to the VIE. If both conditions are present, the Company is required to consolidate the VIE.

**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 for collateral received on securities lending in Other liabilities. 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 transferred. Securities sold under agreements to repurchase are treated as financing arrangements. 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 reverse repurchase agreements to purchase and resell short-term securities. Securities purchased under agreements to resell are treated as investing activities. 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 and therefore, the collateral is not recorded in 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 to be resold is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure. The Company records the amount paid for securities purchased under agreements to resell in other investments.

**Deferred Policy Acquisition Costs**

Costs that are related directly to the successful acquisition of new and renewal insurance business are deferred as DAC. DAC primarily include commissions paid as well as a portion of employee compensation costs related to underwriting, policy issuance and processing, and medical inspection. These costs have been deferred and recorded as an asset.

For traditional participating life insurance policies, such costs are amortized over the estimated life of the contracts, in proportion to estimated gross margins. For universal life and deferred annuity contracts, such costs are amortized in proportion to estimated gross profits over the estimated life of those contracts. Annually, the

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Company conducts a review of valuation assumptions relative to current experience and management expectations. To the extent that expectations change as a result of this review, valuation assumptions are updated and the impact is reflected as retroactive adjustments in the current year's amortization ("unlocking") and is included in Operating expenses. The Company uses a reversion to the mean approach to derive future equity return assumptions for certain separate accounts. However, if the equity return assumption calculated pierces an established cap or floor for a sustained period of time, the long-term assumption will be unlocked and re-established. For these contracts, the carrying amount of DAC is adjusted at each balance sheet date as if the unrealized investment gains or losses had been realized and included in the gross margins or gross profits used to determine current period amortization. The increase or decrease in DAC due to unrealized investment gains or losses is recorded in AOCI.

DAC for term insurance, international non-participating traditional life insurance, group life, and long-term care contracts are amortized in proportion to premium income over the effective premium-paying period of the contract. Assumptions as to anticipated premiums are made at the date of policy issuance and are consistently applied during the life of the contract. Deviations from estimated experience are included in operating expenses when they occur. For single premium immediate annuities with life contingencies and single premium structured settlements with life contingencies, all acquisition costs are charged to expense immediately because generally all premiums are received at the inception of the contract.

The Company assesses internal replacements to determine whether such modifications significantly change the contract terms. When the modification substantially changes the contract, DAC is written-off immediately through income and only new deferrable expenses associated with the replacements are deferred. If the contract modifications do not substantially change the contract, DAC amortization on the original policy will continue and any acquisition costs associated with the related modification are expensed. DAC written-off at the date of lapse cannot be restored when a policy subsequently reinstates.

**Sales Inducements**

For some deferred annuity products, the Company offers policyholders a bonus equal to a specified percentage of the policyholder's initial deposit and additional credits to the policyholder's account value related to minimum accumulation benefits, which are considered sales inducements in certain instances. The Company also offers enhanced crediting rates on certain dollar cost averaging programs related to its deferred annuity products. From time to time, the Company conducts term life insurance conversion programs under which certain policyholders are offered additional premium credits, which are considered sales inducements, when converting a term life insurance policy or rider to a permanent life insurance contract. The Company defers these aforementioned sales inducements and generally amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. Deferred sales inducements are reported in Other assets.

**Policyholders' Account Balances**

The Company's liability for Policyholders' account balances primarily represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is generally equal to the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges assessed against the account balance. This liability also includes amounts that have been assessed to compensate the insurer for services to be performed over future periods, and the fair value of embedded derivatives in the above contracts.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

Policyholders' account balances related to certain of the Company's reinsurance contracts are carried at fair value by election of the fair value option. These amounts are dividends left on deposit. Refer to Note 14 - Reinsurance, for a discussion on assumed reinsurance.

Policyholders' account balances also include liabilities related to the Company's Medium Term Notes ("MTN") programs and are carried at amortized cost. Under these programs, a statutory trust or special purpose entity ("the note issuers"), which are consolidated VIEs, issue MTNs to investors. The MTNs are secured by funding agreements issued to the statutory trust or special purpose entity by the Company and have payment terms substantially identical to the funding agreements. The note issuers grant a security interest in the funding agreements to the indenture trustee for the notes. In recognition of the MTN note being secured by the funding agreements, it is included in Policyholders' account balances.

**Future Policy Benefits**

The Company's liability for Future policy benefits is mainly comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For traditional individual participating life insurance products, the mortality assumptions applied are those used to calculate the policies' guaranteed cash surrender values. The interest rate assumptions are based on the dividend fund interest rate. For non-participating traditional life insurance, annuity, and long-term care products, expected mortality and/or morbidity for lapse or surrender are generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation ("PAD"). Interest rate assumptions are based on factors such as market conditions and expected investment returns. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable. If experience is less favorable than assumed and future losses are projected under loss recognition testing, then additional liabilities may be required, resulting in an increase in liabilities for Future policy benefits. The Company does not establish loss reserves until a loss has occurred.

Future policy benefits related to certain of the Company's reinsurance contracts are carried at fair value by election of the fair value option. Refer to Note 14 - Reinsurance, for a discussion on assumed reinsurance.

The Company's liability for Future policy benefits also includes liabilities for guaranteed minimum benefits related to certain non-traditional long-duration life and annuity contracts, and deferred profit on limited pay contracts. Refer to Note 12 - Policyholders' Liabilities, for a discussion on guaranteed minimum benefits.

**Policy Claims**

The Company's liability for Policy claims includes a liability for unpaid claims. Unpaid claims include estimates of claims that the Company believes have been incurred, but have not yet been reported as of the balance sheet date. Policy claims related to certain of the Company's reinsurance contracts are carried at fair value by the election of the fair value option. Refer to Note 14 - Reinsurance, for a discussion on assumed reinsurance.

**Debt**

Debt is generally carried at unpaid principal balance less any deferred debt issuance costs and is included in Other liabilities. Refer to Note 9 - Fair Value Measurements, for discussion on the fair value of debt.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Separate Account Assets and Liabilities**

The Company has separate accounts, some of which are registered with the U.S. Securities and Exchange Commission (“SEC”). The Company reports separately, as Separate account assets and Separate account liabilities, investments held in separate accounts and liabilities of the separate accounts if (1) such separate accounts are legally recognized; (2) assets supporting the contract liabilities are legally insulated from the Company’s general account liabilities; (3) investments are directed by the contractholder or in accordance with specific investment objectives; and (4) all investment performance, net of contract fees and assessments, is passed through to the contractholder. The separate accounts have varying investment objectives, are segregated from the Company’s general account and are maintained for the benefit of separate account policyholders. Investment risks associated with market value changes are borne by the policyholders, except to the extent of minimum guarantees made by the Company with respect to certain accounts. All separate account assets are stated at fair value. The separate account liabilities represent the policyholders’ interest in the account, and include accumulated net investment income and realized and unrealized gains and losses on the assets.

**Contingencies**

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

**Benefit Plans**

New York Life maintains various tax-qualified and non-qualified plans that provide defined benefit pension and other postretirement benefits covering eligible U.S. employees and agents. A December 31st measurement date is used for all defined benefit pension and other postretirement benefit plans.

The Company recognizes the funded status of each of the pension and other postretirement plans in Other assets or Other liabilities. The funded status is measured as the difference between plan assets at fair value and projected benefit obligation (“PBO”) for pension plans or the accumulated postretirement benefit obligations (“APBO”) for other postretirement plans.

The PBO is defined as the actuarially calculated present value of vested and non-vested pension benefits accrued based on service accruals through the measurement date and anticipated future compensation levels. It is the basis upon which pension liabilities and net periodic pension benefit cost are determined. The PBO of the defined benefit pension plans is determined using a variety of actuarial assumptions, from which actual results may vary.

The APBO represents the actuarial present value of other postretirement benefits attributed to employee services rendered through the measurement date. This is the valuation basis upon which postretirement liabilities and net periodic postretirement benefit cost are determined. The APBO is determined using a variety of actuarial assumptions, from which actual results may vary.

For pension and other postretirement benefits, New York Life recognizes the net periodic benefit cost as an expense in the Consolidated Statements of Operations.

Net periodic benefit cost is determined using management estimates and actuarial assumptions to derive service cost, interest cost, and expected return on plan assets for a particular year. Net periodic benefit cost also includes the applicable amortization of any prior service cost (credit) arising from the increase (decrease) in prior years’ benefit costs due to plan amendments. These costs are amortized into net periodic benefit cost over the expected service years of employees whose benefits are affected by such plan amendments. Actual experience related to

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

plan assets and/or the benefit obligation may differ from that originally assumed when determining net periodic benefit cost for a particular period and future assumptions may change, resulting in gains or losses. To the extent such aggregate gains or losses exceed 10 percent of the greater of the benefit obligation or the market-related asset value of the plan, they are amortized into net periodic benefit cost over the expected service years of employees expected to receive benefits under the plans.

The obligations and expenses associated with these plans require an extensive use of assumptions such as the discount rate, expected rate of return on plan assets, rate of future compensation increases, healthcare cost trend rates, as well as assumptions regarding participant demographics such as rates and age at retirement, withdrawal rates, and mortality. Management, in consultation with its external consulting actuarial firm, determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics.

New York Life also sponsors tax-qualified defined contribution plans for substantially all U.S. employees and agents. The defined contribution plan for employees matches a portion of employees' contributions. Accordingly, the Company recognizes compensation cost for current matching contributions. The defined contribution plan for agents provides for discretionary Company contributions for eligible agents. Accordingly, the Company recognizes compensation cost for current discretionary contributions. As all contributions are transferred currently to the trust for these plans, no liability for matching or discretionary contributions is recognized.

New York Life also maintains for certain eligible participants a non-qualified unfunded arrangement that credits deferral amounts and matching contributions with respect to compensation in excess of the amount that may be taken into account under the tax-qualified defined contribution plan because of applicable Internal Revenue Service ("IRS") limits. Accordingly, the Company recognizes compensation cost for current matching contributions and holds a liability for these benefits, which is included in Other liabilities.

New York Life provides certain benefits to eligible employees and agents during employment for paid absences, and after employment but before retirement. A liability for these benefits is accrued when the benefit is incurred.

**Other Assets and Other Liabilities**

Other assets primarily consist of amounts receivable for undelivered securities, furniture and equipment, investment income due and accrued, capitalized software and web development costs, reinsurance recoverables, suspense and clearing, current taxes receivable, sales inducements, goodwill, intangible assets, and trade receivables.

Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally ranges from three to ten years.

Capitalized external and internal software and web development costs are amortized on a straight-line basis over the estimated useful life of the software, generally not to exceed five years.

Goodwill and other intangible assets with an indefinite useful life are not required to be amortized. All indefinite-lived intangible assets are required to be tested for impairment at least annually. The Company has an option to perform the impairment analysis quantitatively or qualitatively, when certain criteria is met.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

If, after assessing the events or circumstances, it is determined that more likely than not the fair value of a reporting unit is less than its carrying amount then the quantitative analysis is performed. If, however the Company concludes otherwise, then no further analysis is deemed necessary.

The quantitative goodwill impairment analysis is performed at the reporting unit level. The first step involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, the applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, an impairment charge is recorded for the excess. A maximum impairment loss that can be recognized is the amount of goodwill assigned to a reporting unit. Subsequent reversal of goodwill impairment losses is not permitted.

Indefinite-lived intangible assets, other than goodwill, also follow the qualitative and/or the quantitative analysis for impairment by comparing the fair value of the asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized in the amount of that excess.

An intangible asset with a finite life is amortized over its useful life. Intangible assets with finite useful lives are tested for impairment when facts and circumstances indicate that the carrying amount may not be recoverable, and an impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows attributable to the asset. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value.

Fair value is generally determined using discounted cash flow analysis using assumptions that a market participant would use.

Other liabilities consist primarily of reinsurance payables, which is mainly comprised of funds-withheld payable by the Company in accordance with the terms of certain reinsurance ceded contracts, payables resulting from purchases of securities that had not yet settled at the balance sheet date, derivative liabilities, claim adjustment expenses, accrued expenses, employee benefit liabilities, net deferred tax liabilities, and current tax liabilities.

Reinsurance recoverables and payables related to certain of the Company's reinsurance contracts are carried at fair value by election of the fair value option.

**Fair Value Measurements**

For fair values of various assets and liabilities, refer to Note 9 - Fair Value Measurements.

**Foreign Currency Translation Adjustments**

Assets and liabilities of entities with their functional currency denominated in foreign currencies have been translated into U.S. dollars at the respective year-end exchange rates. Operating results are translated monthly at the average exchange rates for that month. Foreign currency translation gains and losses are credited or charged directly to the cumulative translation adjustment ("CTA") account in AOCI net of applicable tax. The change in the CTA account includes the current year effect of the translation adjustment. CTA is reclassified from AOCI to Net investment gains or losses on the accompanying Consolidated Statements of Operations upon the sale or complete or substantially complete liquidation of the Company's investment in the foreign entity. Foreign currency transaction gains and losses are included in Net investment gains or losses in the Consolidated Statement of Operations.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recognition of Insurance Income and Related Expenses**

Premiums from traditional participating life insurance policies, term life policies, long-term care and annuity contracts with life contingencies are recognized as revenue when due. The associated benefits and expenses are matched with revenue so as to result in the recognition of profits over the life of the policies/contracts. This match is accomplished by providing liabilities for future policy benefits (refer to Note 12 - Policyholders' Liabilities) and the deferral and subsequent amortization of DAC. Premiums from group life policies are recognized as revenue over the contract period.

Amounts received under universal life-type contracts and investment contracts are reported as deposits to Policyholder's account balances as discussed in Note 12 - Policyholders' Liabilities. Revenues from these contracts consist of amounts assessed during the period for mortality and expense risk, policy administration and surrender charges, and are included in Fees – universal life and annuity policies. In addition to fees, the Company earns investment income from the investment of policyholders' deposits in the Company's general account portfolio. The Company establishes an unearned revenue liability for amounts previously assessed to compensate the Company for services to be performed over future periods. These amounts are deferred and recognized into income over the period benefited, using the same assumptions and factors used to amortize DAC. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholders' account balances.

Premiums for contracts with a single premium or a limited number of premium payments due over a significantly shorter period than the total period over which benefits are provided are recorded as income when due. Any excess profit is deferred and recognized as income in a constant relationship to insurance in-force and, for annuities, in relation to the amount of expected future benefit payments.

Premiums, universal life fee income, benefits and expenses are stated net of reinsurance ceded. Estimated reinsurance ceding allowances are recognized over the life of the reinsured policies using assumptions consistent with those used to account for the underlying policies. Refer to Note 14 - Reinsurance for a discussion on reinsurance.

**Management Fees**

The Company receives fees for investment management advisory services and performance fees for services provided under agreements with its clients. Management fees also includes revenue from the distribution of mutual funds. These fees are recognized when earned and are included in Management fees and other income.

**Dividends Payable to Policyholders**

The amount of dividends to be paid to New York Life participating policyholders is determined annually by New York Life's Board of Directors. The aggregate amount of policyholders' dividends is based on New York Life's statutory results and past experience, including investment income, net realized investment gains and losses over a number of years, mortality experience, and other factors. New York Life accrues dividends to policyholders when they are due to the policyholder.

Dividends payable to policyholders related to certain of the Company's reinsurance contracts are carried at fair value by election of the fair value option. Refer to Note 14 - Reinsurance, for a discussion on assumed reinsurance.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 and liabilities are recognized for expected future tax consequences of temporary differences between GAAP and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby GAAP and tax balance sheets are compared to each other. Deferred income taxes are generally recognized based on enacted tax rates and a valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

Authoritative guidance requires an evaluation of the recoverability of deferred tax assets and the establishment of a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance many factors are considered, including: (1) the nature of deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carry-back years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various tax jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies the Company would employ to avoid a tax benefit from expiring unused.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) was signed into law, making significant changes to the U.S. Internal Revenue Code that could impact the Company’s effective tax rate and cash tax payments in future periods. Among the key provisions that impact the financial statements for the year ended December 31, 2017 are the following: (1) a reduction in the corporate income tax rate to 21% and (2) the transition to a territorial tax system rather than a worldwide system, including the imposition of a one-time transitional tax on the accumulated earnings of our foreign subsidiaries. Other significant provisions that are not yet effective but may impact income taxes in future years include: (1) modifications to the calculation of the dividends received deduction (“DRD”), (2) changes in how deductions are determined for insurance reserves, (3) increases in the amount of policy acquisition expenses that must be capitalized and amortized for federal income tax purposes, (4) the imposition of a Global Intangible Low-Taxed Income provision which applies a U.S. minimum tax to earnings of foreign subsidiaries in excess of a 10% deemed return on tangible assets of foreign subsidiaries, (5) a new tax with respect to payments to non-U.S. affiliates that are at least 25% owned (the Base Erosion Anti-Abuse Tax) and (6) limitations on the current deductibility of net interest expense.

On December 22, 2017, SEC staff issued Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”), which allows registrants to record provisional amounts during a ‘measurement period’ not to extend beyond one year. On January 10, 2018, the FASB issued a Staff Q&A document, which indicates that they would not object to private companies applying SAB 118 and this would be compliant with GAAP. Under the relief provided by SAB 118, a company can recognize provisional amounts when it does not have the necessary information available, prepared or analyzed in reasonable detail to complete its accounting for the change in tax law. See Note 18 - Income Taxes for a discussion of provisional amounts related to the TCJA.

New York Life files a consolidated federal income tax return with all domestic insurers and certain non-insurance subsidiaries. The consolidated income tax provision or benefit is allocated among the members of the group in accordance with a tax allocation agreement. The tax allocation agreement provides that each member of the group computes its share of the consolidated tax provision or benefit, in general, on a separate company basis, and may, where applicable, include the tax benefits of operating or capital losses utilizable in NYLIC's

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

consolidated returns. Intercompany tax balances are generally settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return. 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.

The Company's foreign affiliates operating outside the United States of America compute their tax provision and file on a separate return basis, in accordance with the applicable foreign tax statutes prevailing in the country in which they are deemed a resident for tax purposes.

In accordance with the authoritative guidance related to income taxes, the Company determines whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. The amount of tax benefit recognized for an uncertain tax position is the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Unrecognized tax benefits are included in Other liabilities and are charged to earnings in the period that such determination is made. The Company classifies interest and penalties related to tax uncertainties as Income tax expense.

**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.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS**

**Adoption of New Accounting Pronouncements**

In February 2018, the FASB issued updated guidance that permits companies to reclassify stranded tax effects in Accumulated Other Comprehensive Income ("AOCI") to retained earnings caused by the TCJA. The Company early adopted this guidance by increasing AOCI and decreasing retained earnings by \$363 million at December 31, 2017. The reclassification was done for all items within AOCI related to disproportionate tax effects caused by TCJA and were associated with the change in the U.S. corporate income tax rate. Absent this new updated guidance, the Company's policy for releasing income tax effects from AOCI would have been to reclassify such effects upon liquidation of the investment portfolio or upon termination of a benefit plan obligation.

In February 2015, the Financial Accounting Standards Board ("FASB") issued updated guidance that changes the rules regarding consolidations. The pronouncement is intended to improve targeted areas of the consolidation guidance for legal entities such as limited partnerships, limited liability companies, and securitization structures, and removes the indefinite deferral for certain investment funds. The pronouncement also clarifies consideration of fees paid to a decision maker and amends the related party guidance. The Company adopted this new standard beginning January 1, 2016 and applied the guidance using a modified retrospective approach. The adoption resulted in the deconsolidation of certain of its previously consolidated collateralized loan obligations ("CLOs") and limited partnerships, as the fee arrangements are no longer deemed variable interests in these entities. The Company continues to consolidate CLOs and limited partnerships where it retains other economic interests which absorb more than an insignificant amount of the expected variability. The adoption also resulted in the consolidation of certain investment funds which were not consolidated in the past under the previous deferral guidance but the Company meets the primary beneficiary criteria under the new guidance. The impact to the Company's consolidated statements of financial position upon adoption of the updated guidance is a decrease in Total assets of \$714 million, a decrease in Total liabilities of \$1,249 million, and an increase in Noncontrolling interests of \$532 million.

**Future Adoption of New Accounting Pronouncements**

In August 2017, the FASB issued updated guidance on accounting for hedging activities with an objective to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments expand and refine hedge accounting for both non-financial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The Company plans to adopt the guidance on its required effective date of January 1, 2019 with a cumulative effective adjustment recorded for the impact on adoption. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In February 2017, the FASB issued updated guidance on partial sales of and derecognition of non-financial assets. The guidance clarifies when and how to apply Accounting Standards Codification ("ASC") 610-20, *Other Income*, by defining "in substance non-financial assets," unifying guidance related to partial sales of non-financial assets, and eliminating rules specifically addressing sales of real estate. When an entity transfers its controlling interest in a non-financial asset, but retains a non-controlling ownership interest, the entity will measure the retained interest at fair value. This will result in full gain/loss recognition upon the sale of a controlling interest in a non-financial asset. Current guidance generally prohibits gain recognition on the retained interest. The new guidance is effective on January 1, 2018 and needs to be applied on a retrospective basis. The Company is in the process of finalizing the adoption of this guidance and does not expect the impact to be material.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

In June 2016, the FASB issued updated guidance for recognizing credit losses on certain financial instruments based on an estimate of current expected credit losses. Entities will be required to estimate lifetime expected credit losses based on an asset's amortized cost that reflects losses expected over the remaining contractual life of an asset. The estimate of expected credit losses (ECL) should consider historical information, current information, and reasonable and supportable forecasts of future events and circumstances, as well as estimates of prepayments. This includes the risk of loss, even when that risk is remote. The guidance also modifies existing other-than-temporary impairment guidance for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces existing guidance for purchased credit deteriorated loans and debt securities. The Company plans to adopt the guidance on its required effective date of January 1, 2020 using a modified retrospective approach. The Company is currently assessing the impact of this guidance on its consolidated financial statements.

In February 2016, the FASB issued updated guidance on accounting for leases which requires lessees to recognize almost all leases on the balance sheet as a right-of-use asset and a lease liability. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and lease liabilities rather to recognize lease expense on a straight-line basis over the term of the lease. The recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed. Also, fundamental changes were not made to the lessor accounting. The Company plans to adopt the guidance on its required effective date of January 1, 2019 using a modified retrospective approach. The Company is assessing the impact of this guidance on its consolidated financial statements.

In January 2016, the FASB issued updated guidance that changes the rules regarding recognition and measurement of financial assets and financial liabilities. Amongst other changes, the new guidance eliminates the current classification of the equity securities as trading or available-for-sale and requires that an entity report all equity securities (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) at fair value with changes in fair value recognized in income. The Company plans to adopt the guidance on its required effective date of January 1, 2018 with a cumulative effective adjustment recorded for the impact on adoption. The Company is in the process of finalizing the adoption of this guidance and does not expect the impact to be material.

In May 2014, the FASB issued updated guidance on accounting for revenue recognition, which supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of our non-insurance activities of our asset management business. The guidance requires an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to, in exchange for those goods or services. The guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments, changes in judgments and assets recognized from cost incurred to obtain or fulfill a contract. The Company plans to adopt the guidance on its required effective date of January 1, 2018 using a modified retrospective approach with a cumulative effect adjustment to retained earnings at the date of adoption. The Company is in the process of finalizing the adoption of this guidance and does not expect the impact to be material.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 – INVESTMENTS**

**Fixed Maturities**

The amortized cost and estimated fair value of fixed maturities available-for-sale at December 31, 2017 and 2016, by contractual maturity, is presented below (in millions). Expected maturities may differ from contractual maturities because issuers may have the right to call or repay obligations with or without call or prepayment penalties.

	2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available-for-sale</b>				
Due in one year or less	\$ 5,784	\$ 5,860	\$ 4,863	\$ 4,900
Due after one year through five years	36,270	37,467	35,016	36,450
Due after five years through ten years	42,793	44,432	39,795	40,644
Due after ten years	36,278	41,704	31,804	35,841
Mortgage-backed and asset-backed securities:				
U.S. agency mortgage-backed and asset-backed securities	28,668	29,323	26,397	27,160
Non-agency mortgage-backed securities	13,323	13,471	12,194	12,265
Non-agency asset-backed securities	8,271	8,388	12,774	12,763
Total available-for-sale	\$ 171,388	\$ 180,645	\$ 162,843	\$ 170,023

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

At December 31, 2017 and 2016, the distribution of gross unrealized gains and losses on investments in fixed maturities were as follows (in millions):

	2017				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI <sup>1</sup>
<b>Available-for-sale</b>					
U.S. Treasury	\$ 1,854	\$ 364	\$ 29	\$ 2,189	\$ —
U.S. government corporations & agencies	7,097	1,037	9	8,125	—
U.S. agency mortgage-backed and asset-backed securities	28,668	985	331	29,322	—
Foreign governments	3,079	847	29	3,897	—
U.S. corporate	84,038	5,215	359	88,894	(1)
Foreign corporate	20,476	1,153	120	21,510	—
Non-agency residential mortgage-backed securities	2,037	124	12	2,149	(5)
Non-agency commercial mortgage-backed securities	11,286	134	99	11,321	(1)
Non-agency asset-backed securities <sup>2</sup>	12,853	441	55	13,237	(2)
Total available-for-sale	<u>\$ 171,388</u>	<u>\$ 10,300</u>	<u>\$ 1,043</u>	<u>\$ 180,645</u>	<u>\$ (9)</u>
	2016				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	OTTI in AOCI <sup>1</sup>
<b>Available-for-sale</b>					
U.S. Treasury	\$ 2,980	\$ 314	\$ 69	\$ 3,225	\$ —
U.S. government corporations & agencies	6,943	1,121	17	8,047	—
U.S. agency mortgage-backed and asset-backed securities	26,397	1,181	418	27,160	—
Foreign governments	2,711	1,156	22	3,845	—
U.S. corporate	77,308	4,159	858	80,609	—
Foreign corporate	21,536	814	241	22,109	—
Non-agency residential mortgage-backed securities	2,185	98	38	2,246	(15)
Non-agency commercial mortgage-backed securities	10,009	148	138	10,019	—
Non-agency asset-backed securities <sup>2</sup>	12,774	124	134	12,763	(5)
Total available-for-sale	<u>\$ 162,843</u>	<u>\$ 9,115</u>	<u>\$ 1,935</u>	<u>\$ 170,023</u>	<u>\$ (20)</u>

<sup>(1)</sup> Represents the amount of OTTI losses in AOCI, which were not included in earnings pursuant to authoritative guidance. Amount excludes \$175 million and \$156 million for the years ended December 31, 2017 and 2016, respectively, of gross unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

<sup>(2)</sup> Includes auto loans, credit cards, education loans, and other asset types.

At December 31, 2017 and 2016, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to \$1,230 million and \$881 million, respectively.

**Equity Securities – Unaffiliated Available-for-Sale**

At December 31, 2017 and 2016, the distribution of gross unrealized gains and losses on unaffiliated available-for-sale equity securities were as follows (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>2017</b>	\$ 182	\$ 20	\$ 1	\$ 201
<b>2016</b>	\$ 130	\$ 23	\$ —	\$ 153

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

**Fixed Maturity and Equity Securities, at fair value**

From time to time, the Company elects a fair value option for invested assets that support certain of the Company's insurance and reinsurance contracts for which the investment results associated with these contracts are expected to ultimately accrue to contract holders and where the liability for these contracts are also carried at fair value. Such election has been made to mitigate the volatility in earnings that results from these contracts.

In addition for purchases of more than 20% of the outstanding shares or units of mutual funds, trusts or similar financial instruments (collectively funds) for which the NAV is calculated and published on either a monthly or daily basis, the Company generally elects the fair value option for these investments and accounts for them at fair value, instead of equity method accounting. Reporting these investments at fair value based on each fund's NAV more accurately reflects the value of each investment. At December 31, 2017 and 2016, the Company held \$55 million and \$48 million, respectively, in securities at fair value for these investments.

During 2017 and 2016, the Company recorded \$1 million and \$18 million, respectively, related to fair value changes of the investment, and is reported in Net investment (losses) and gains in the Consolidated Statement of Operations. Dividends declared on these funds are reported in Net investment income in the Consolidated Statement of Operations. There were no unfunded commitments to these funds, at December 31, 2017 and 2016.

Fair value option is also elected for certain investments that host embedded derivatives for which the Company is required to bifurcate those derivatives. The Company generally elects the fair value option for these investments as an alternative to bifurcation.

**Mortgage Loans**

The Company's mortgage loan investments are diversified by property type, location and borrower and are collateralized by the related properties.

At December 31, 2017 and 2016, contractual commitments to extend credit under mortgage loan agreements amounted to \$1,769 million and \$1,116 million, respectively, at fixed and floating interest rates ranging from 2.56% to 11.19% in 2017 and from 2.17% to 6.27% in 2016. These commitments are diversified by property type and geographic region.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

At December 31, 2017 and 2016, the distribution of the mortgage loan portfolio by property type and geographic region are as follows (\$ in millions):

	2017		2016	
	Amount	% of Total	Amount	% of Total
<b>Property Type</b>				
Office buildings	\$ 9,419	30.3%	\$ 9,293	31.5%
Apartment buildings	8,573	27.6	7,800	26.4
Retail facilities	7,730	24.9	7,615	25.8
Industrial	4,679	15.1	4,090	13.8
Residential	41	0.1	62	0.2
Hotel/Motel	541	1.7	586	2.0
Other	67	0.2	94	0.3
Total mortgage loans	\$ 31,050	100.0%	\$ 29,540	100.0%
Allowance for credit losses	(60)		(57)	
Total net mortgage loans	\$ 30,990		\$ 29,483	

	2017		2016	
	Amount	% of Total	Amount	% of Total
<b>Geographic Location</b>				
South Atlantic	\$ 7,849	25.3%	\$ 7,633	25.8%
Central	7,211	23.2	6,320	21.4
Middle Atlantic	6,308	20.3	6,171	20.9
Pacific	6,828	22.0	6,645	22.5
New England	2,518	8.1	2,452	8.3
Other	336	1.1	320	1.1
Total mortgage loans	\$ 31,050	100.0%	\$ 29,540	100.0%
Allowance for credit losses	(60)		(57)	
Total net mortgage loans	\$ 30,990		\$ 29,483	

The Company monitors the aging of its mortgage loans receivable on a monthly basis to determine delinquencies. At December 31, 2017 and 2016, the Company had \$4 million and \$5 million of recorded investment gross of the allowance for credit losses in residential mortgage loans that were past due greater than 90 days. The Company did not have any recorded investment gross of the allowance for credit losses in commercial mortgage loans that were past due greater than 90 days at December 31, 2017. At December 31, 2016, the Company had \$62 million of recorded investment gross of the allowance for credit losses in commercial mortgage loans that were past due greater than 90 days.

The Company establishes a specific reserve when it is probable that the Company will be unable to collect all amounts due under the contractual terms of the loan documents, and a general reserve for probable incurred but not specifically identified losses.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

The activity in the mortgage loan specific and general reserves for the years ended December 31, 2017 and 2016 are summarized below (in millions):

<u>Allowance for Credit Losses</u>	2017			2016		
	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Beginning balance	\$ 2	\$ 55	\$ 57	\$ 2	\$ 52	\$ 54
Provision for credit losses	—	3	3	—	3	3
Ending balance	<u>\$ 2</u>	<u>\$ 58</u>	<u>\$ 60</u>	<u>\$ 2</u>	<u>\$ 55</u>	<u>\$ 57</u>

**Ending Balance**

Individually evaluated for impairment (specific)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment (general)	\$ 2	\$ 58	\$ 60	\$ 2	\$ 55	\$ 57

**Mortgage Loans**

Ending balance (recorded investment, gross of allowance for credit losses):

Individually evaluated for impairment (specific)	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 1
Collectively evaluated for impairment (general)	\$ 40	\$ 29,755	\$ 29,795	\$ 61	\$ 28,149	\$ 28,210

Fair value of the collateral for commercial mortgages (excluding credit loans) over \$5 million is updated triennially, unless a more current appraisal is warranted. Commercial mortgages less than \$5 million have an on-site inspection performed by an external inspection service every 3 years. If the loan is determined to be troubled, the loan is more frequently monitored as to its status. LTV, which is based on collateral values, is deemed as one of the key mortgage loan indicators to assess credit quality and to assist in identifying problem loans. At December 31, 2017 and 2016, LTVs on the Company's mortgage loans, based upon the recorded investment gross of allowance for credit losses were as follows (in millions):

<u>LTV Ratio</u>	2017							
	<u>Office Buildings</u>	<u>Retail Facilities</u>	<u>Apartment Buildings</u>	<u>Industrial</u>	<u>Residential</u>	<u>Hotel/Motel</u>	<u>Other</u>	<u>Total</u>
Above 95%	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
91% to 95%	—	—	—	—	—	—	—	—
81% to 90%	134	—	—	—	—	—	—	134
71% to 80%	69	380	642	12	6	—	—	1,109
Below 70%	9,216	7,350	7,931	4,667	35	541	67	29,807
Total	<u>\$ 9,419</u>	<u>\$ 7,730</u>	<u>\$ 8,573</u>	<u>\$ 4,679</u>	<u>\$ 41</u>	<u>\$ 541</u>	<u>\$ 67</u>	<u>\$ 31,050</u>

<u>LTV Ratio</u>	2016							
	<u>Office Buildings</u>	<u>Retail Facilities</u>	<u>Apartment Buildings</u>	<u>Industrial</u>	<u>Residential</u>	<u>Hotel/Motel</u>	<u>Other</u>	<u>Total</u>
Above 95%	\$ —	\$ —	\$ —	\$ 62	\$ 1	\$ —	\$ —	\$ 63
91% to 95%	—	—	—	—	—	—	—	—
81% to 90%	135	—	—	—	—	—	—	135
71% to 80%	125	420	765	13	10	—	—	1,333
Below 70%	9,033	7,195	7,035	4,015	51	586	94	28,009
Total	<u>\$ 9,293</u>	<u>\$ 7,615</u>	<u>\$ 7,800</u>	<u>\$ 4,090</u>	<u>\$ 62</u>	<u>\$ 586</u>	<u>\$ 94</u>	<u>\$ 29,540</u>

Impaired mortgage loans with a valuation allowance were less than \$1 million for both years ended December 31, 2017 and 2016. The Company had \$4 million and \$67 million in impaired loans without a related allowance at December 31, 2017 and 2016, respectively.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

Investments in mortgage loans that have been non-income producing for the last twelve months totaled \$4 million and \$67 million at December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, there were \$78 million and \$888 million of mortgage loans acquired, other than through direct origination, respectively.

The Company has investments in mortgage loans, for which it elected the fair value option. The contractual principal amount of mortgage loans for which the fair value option has been elected were \$1,214 million and \$1,270 million, as of December 31, 2017 and 2016, respectively. During 2017, the Company recorded a \$3 million gain related to fair value changes of the investment, which is reported in Net investment (losses) and gains. As of December 31, 2017, there were no loans in non-accrual status and none of the loans are more than 90 days past due.

**Other Investments**

The components of Other investments at December 31, 2017 and 2016 were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Limited partnerships/limited liability companies	\$ 6,266	\$ 5,772
Investment, at fair value, of consolidated investment companies	5,496	5,247
Senior secured commercial loans	5,692	5,524
Loans of certain consolidated VIEs	1,611	2,005
Derivatives	639	1,299
Real estate	2,435	2,486
Securities purchased under agreements to resell	538	607
Short term investments	129	226
Other invested assets	467	408
Total other investments	<u>\$ 23,273</u>	<u>\$ 23,574</u>

Investments, at fair value, of consolidated investment companies consist primarily of equity securities, real estate, other limited partnerships, and fixed maturities.

Senior secured commercial loans are typically collateralized by all assets of the borrower. The Company's senior secured commercial loans, before loss reserve, amounted to \$5,777 and \$5,595 million at December 31, 2017 and 2016, respectively. The loss reserve was \$85 million and \$71 million for the years ended December 31, 2017 and 2016, respectively.

Unfunded commitments on limited partnerships, limited liability companies and senior secured commercial loans amounted to \$7,627 million and \$6,743 million at December 31, 2017 and 2016, respectively.

Accumulated depreciation on real estate was \$242 million and \$203 million at December 31, 2017 and 2016, respectively. Depreciation expense was \$93 million and \$92 million for the years ended December 31, 2017 and 2016, respectively, and was recorded as a component of Net investment income.

The Company receives tax credits related to its investments in qualified affordable housing projects. At December 31, 2017 and 2016, the Company had \$298 million and \$436 million, respectively, in qualified affordable housing investments, included in Limited partnerships/limited liability companies above. The investment balance includes \$42 million and \$77 million of unfunded commitments as of December 31, 2017 and 2016, respectively. During 2017 and 2016, the Company recorded amortization on these investments under

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

the proportional amortization method of \$137 million and \$113 million, respectively. The Company recorded tax credits and other tax benefits on these investments of \$124 million and \$150 million for 2017 and 2016, respectively. Both the amortization of the investments as well as the tax credits and tax benefits are recognized as a component of income tax expense (benefit).

**Variable Interest Entities**

The following table presents the carrying value of assets and liabilities of all of the Company's consolidated VIEs at December 31, 2017 and 2016 (in millions):

<b>Consolidated Statements of Financial Position Line Item</b>	<b>2017</b>			<b>2016</b>		
	<b>Managed VIEs</b>	<b>Other Consolidated VIEs</b>	<b>Total</b>	<b>Managed VIEs</b>	<b>Other Consolidated VIEs</b>	<b>Total</b>
Fixed maturities, securities at fair value	\$ 20	\$ —	\$ 20	\$ 127	\$ —	\$ 127
Equity securities, securities at fair value	137	(1)	136	231	1	232
Mortgage loans	—	65	65	—	261	515
Other investments	5,218	420	5,638	5,834	236	5,816
Cash and cash equivalents	295	19	314	422	8	430
Investment income due and accrued	15	3	18	20	3	23
Other assets	130	19	149	92	16	108
Total assets	\$ 5,815	\$ 525	\$ 6,340	\$ 6,726	\$ 525	\$ 7,251
Debt	\$ 1,576	\$ 227	\$ 1,803	\$ 2,230	\$ 506	\$ 2,736
Other liabilities	238	(98)	140	435	16	451
Total liabilities	\$ 1,814	\$ 129	\$ 1,943	\$ 2,665	\$ 522	\$ 3,187

**Managed VIEs**

The Company is the investment manager for certain collateralized and other investment structures, for which the Company earns fee income. Additionally, the Company may invest in securities issued by these structures. The Company analyzes these relationships to determine whether it has (1) the power to direct the activities of the VIE that most significantly impacts the economic performance of the entity and (2) the obligation to absorb losses or the right to receive benefits of the entity that could be potentially significant and thus determined to be the primary beneficiary. This analysis includes a review of the Company's rights and responsibilities as investment manager, the fees received by the Company and other interest (if any) held by the Company. The Company is not required to provide, and has not provided, material financial or other support to any VIE for which it is the investment manager.

The Company has analyzed these relationships and determined that it is the primary beneficiary for certain collateralized and other investment structures and consolidates these entities. The assets of these VIEs are restricted and must be used to settle liabilities of the VIE. Creditors have no recourse against the Company in the event of default by these VIEs, nor does the Company have any significant implied or unfunded commitments to these VIEs.

The fair value option has been elected for the financial assets and liabilities of the consolidated collateralized VIEs, and therefore assets and liabilities are reported at fair value, with changes in fair value reflected in Net

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

investment gains or losses. The fair value of those eligible assets for the years ended December 31, 2017 and 2016, totaled \$1,501 million and \$1,813 million, respectively. The outstanding principal of these assets for the years ended December 31, 2017 and 2016, totaled \$1,521 million and \$1,867 million, respectively. The fair value of those eligible liabilities for the years ended December 31, 2017 and 2016, totaled \$1,575 million and \$1,743 million, respectively. The outstanding principal of these liabilities for the years ended December 31, 2017 and 2016, totaled \$1,616 million and \$1,937 million, respectively.

During the years ended December 31, 2017 and 2016, the change in fair value of the assets resulted in a loss of \$33 million and a gain of \$82 million, respectively, which was recorded in Net investment gains (losses). Interest income is recorded in Net investment income. During the years ended December 31, 2017 and 2016 the change in fair value of the liabilities resulted in a gain of \$45 million and \$9 million, respectively, which was recorded in Net investment (losses) gains.

The Company's financial or other support provided to these VIEs is limited to its investment management services and, in certain cases, its original investment. The Company's maximum exposure to loss resulting from its relationship with the managed VIEs is limited to its investment in the structures. At December 31, 2017 and 2016, the Company's maximum exposure to loss was \$283 million and \$313 million, respectively.

For certain consolidated collateralized structures, the Company elected the measurement alternative for valuing the financial liabilities of these entities. Refer to Note 9 – Fair Value Measurements for more information on the measurement alternative.

**Other Consolidated VIEs**

At December 31, 2017 and 2016, the Company consolidated other VIEs for which it was determined to be the primary beneficiary. These VIEs consisted of certain entities where the Company is not the investment manager. Creditors have no recourse against the Company in the event of default by these VIEs. The Company's maximum exposure to loss resulting from its relationship with these structures is limited to its investment. At December 31, 2017 and 2016, the Company's maximum exposure to loss was \$209 million and \$297 million, respectively.

**Unconsolidated VIEs**

In the normal course of its activities, the Company will invest in structured investments, including VIEs for which it is not the primary beneficiary. These structured investments typically invest in fixed income investments that are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has not provided financial or other support, other than its direct investment, to these structures. The Company has determined that it is not the primary beneficiary of these structures because it does not have the power to direct the activities that significantly impact the VIE's economic performance. The Company classifies these investments as Fixed maturities - Available-for-sale and Fixed maturities - Securities at fair value. The maximum exposure to loss associated with these investments was \$57,935 million and \$53,743 million at December 31, 2017 and December 31, 2016, respectively.

In the normal course of its activities, the Company will invest in joint ventures, limited partnerships and limited liability companies. These investments include hedge funds, private equity funds and real estate related funds that may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not the primary beneficiary of these structures because it does not have the power to direct the activities that significantly impact

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**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 6 - INVESTMENTS (continued)**

the entities' economic performance. The Company classifies these investments in Other investments and its maximum exposure to loss associated with these entities was \$6,266 million and \$5,772 million at December 31, 2017 and December 31, 2016, respectively.

These investments are subject to ongoing review for impairment and for events that may cause management to reconsider whether or not it is the primary beneficiary. The Company has no additional economic interest in these structures in the form of derivatives, related guarantees, credit enhancement or similar instruments and obligations. Creditors have no recourse against the Company in the event, of default. The Company has unfunded commitments in joint ventures, limited partnerships and limited liability companies, which are discussed in the "Other investments" section above.

In addition, not reflected in the table above, are MTN liabilities of \$11,923 million and \$10,825 million at December 31, 2017 and 2016, respectively, which are included in Policyholders' account balances.

**Restricted Assets and Special Deposits**

Assets with a carrying value of \$279 million and \$281 million at December 31, 2017 and 2016, respectively, were on deposit with governmental authorities or trustees as required by certain state insurance and foreign government laws and are included within related invested assets in the accompanying Consolidated Statements of Financial Position.

In addition, assets with a carrying value of \$10,762 million and \$11,083 million as of December 31, 2017 and December 31, 2016 are held in a grantor trust and are only available for satisfying certain reinsurance liabilities. Refer to Note 14 - Reinsurance for additional discussion.

Refer to Note 12 - Policyholders' Liabilities and Note 17 - Commitments and Contingencies, Loaned Securities and Repurchase Agreements for additional discussion on assets pledged as collateral.

**NOTE 7 - DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT**

The Company uses derivative instruments to manage interest rate, currency, equity, and credit risk. These derivative instruments include foreign currency forwards, interest rate futures, interest rate and equity options, and interest rate, inflation, credit default, equity and foreign currency swaps. The Company does not engage in derivative instrument transactions for speculative purposes. Refer to Note 3 - Significant Accounting Policies for a discussion on the accounting for derivative instruments.

The Company may enter into exchange-traded futures and over-the-counter("OTC") derivative instruments. Exchange-traded futures are executed through regulated exchanges and require daily posting of initial and variation margin . When the Company enters into exchange-traded futures, it 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, OTC-cleared derivatives require, initial and daily variation margin 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

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

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 arrangements and adjusts transaction levels, when appropriate, to minimize risk. The Company’s policy is not to offset the fair value amounts recognized for derivatives executed with the same OTC-bilateral counterparty under the same master netting agreements with the associated collateral.

The following table presents recognized derivative instruments that are subject to enforceable master netting agreements at December 31, 2017 and 2016 (in millions):

		2017						
	Gross amounts of recognized derivative instruments <sup>(1)</sup>	Gross amounts offset in the Statements of Financial Position	Gross amounts presented in the Statements of Financial Position	Gross amounts not offset in Statements of Financial Position	Cash collateral	Securities collateral	Net amounts of recognized derivative instruments	
Assets	\$ 866	\$ (229)	\$ 638	\$ (322)	\$ (278)	\$ (19)	18	
Liabilities	\$ (449)	\$ 79	\$ (370)	\$ 322	\$ 37	\$ —	(10)	

  

		2016						
	Gross amounts of recognized derivative instruments <sup>(1)</sup>	Gross amounts offset in the Statements of Financial Position	Gross amounts presented in the Statements of Financial Position	Gross amounts not offset in Statements of Financial Position	Cash collateral	Securities collateral	Net amounts of recognized derivative instruments	
Assets	\$ 1,299	\$ —	\$ 1,299	\$ (453)	\$ (784)	\$ (23)	39	
Liabilities	\$ (589)	\$ —	\$ (589)	\$ 453	\$ 122	\$ —	(14)	

<sup>1</sup> The gross amounts exclude investment income due and accrued and accrued investment expense on derivatives, which are included in Other assets and Other liabilities, respectively.

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 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 a decline 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. If the credit contingent features had been triggered at December 31, 2017, the Company estimates that it would not have had to post additional collateral for a one notch downgrade in the Company’s credit rating, and would have had to post additional collateral of \$34 million for a downgrade that would trigger full collateralization.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

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.

The following table presents the notional amount and gross fair 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 (excluding embedded derivatives) at December 31, 2017 and 2016 (in millions):

	Primary Risk Exposure	2017			2016		
		Volume	Fair Value <sup>(2,3)</sup>		Volume	Fair Value <sup>(2,3)</sup>	
		Notional Amount <sup>(1)</sup>	Asset	Liability	Notional Amount <sup>(1)</sup>	Asset	Liability
<b>Derivatives Qualifying and Designated:</b>							
<b>Cash Flow Hedges:</b>							
Foreign currency swaps	Currency	\$ 153	\$ 16	\$ —	\$ 425	\$ 29	\$ 49
Interest rate swaps	Interest	50	—	—	50	15	—
Subtotal		203	16	—	475	44	49
<b>Net Investment Hedges:</b>							
Foreign currency forwards	Currency	73	—	2	76	8	—
Subtotal		73	—	2	76	8	—
Total derivatives qualifying and designated		276	16	2	551	52	49
<b>Derivatives Not Designated:</b>							
Interest rate options	Interest	94,337	15	—	102,640	73	—
Equity options	Equity	652	32	—	652	53	—
Equity swaps	Equity	93	7	—	101	5	2
Foreign currency forwards	Currency	403	13	3	385	28	—
Foreign currency swaps	Currency	7,164	376	219	7,616	656	323
Futures	Interest	31	—	—	214	—	—
Inflation swap	Interest	476	6	66	476	9	56
Interest rate swaps	Interest	5,426	152	70	6,104	398	152
Synthetic GICs	Interest	6,214	1	—	11,288	4	1
Credit default swaps:							
Buy protection	Credit	1,346	—	10	1,683	—	6
Sell protection	Credit	1,222	20	—	1,255	21	—
Total derivatives not designated		117,364	622	368	132,414	1,247	540
Total derivatives		\$ 117,640	\$ 638	\$ 370	\$ 132,965	\$ 1,299	\$ 589

<sup>1</sup> Notional amounts of derivative instruments generally do not represent the amounts exchanged between the parties engaged in the transaction.

<sup>2</sup> The fair value amounts exclude investment income due and accrued, and accrued investment expense on derivatives, which is included in Other assets and Other liabilities. Refer to Note 9 - Fair Value Measurements for a discussion of valuation methods for derivative instruments.

<sup>3</sup> Effective January 3, 2017, the Chicago Mercantile Exchange amended its rulebook to legally characterize variation margin payments for over-the-counter derivatives they clear as settlements rather than collateral. Previously, any variation margin received or paid on derivative assets and liabilities, respectively, was shown gross on the balance sheet in other liabilities and other assets, respectively. The change in characterization of variation margin reduced gross derivative assets by \$228 million, gross derivative liabilities by \$79 million, accrued investment income by \$3 million and accrued investment expenses by \$0 million.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Interest Rate Risk Management**

The Company enters into various types of interest rate derivatives 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.

Inflation swaps are used by the Company to hedge inflation risk of certain policyholder liabilities linked to the U.S. Consumer Price Index.

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 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 contracts until an agreed upon interest rate ceiling, if applicable.

**Currency Risk Management**

The primary purpose of the Company's foreign currency hedging activities is to protect the values 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 and enters into equity swaps to minimize exposure to the market risk associated with guarantees on certain underlying policyholder liabilities. Options require upfront fees paid at the time the agreements are entered into. Equity swaps are agreements between parties to exchange interest payments for an equity return.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Credit Risk Management**

The Company enters into credit default swaps (“CDS”) both to buy protection from and sell protection to a counterparty in the event of a default of a single name reference obligation or a referenced pool of assets. The Company uses combinations of CDS to swap the credit risk of certain foreign government issued fixed maturities with the credit risk of certain U.S. corporate securities or indices. These CDS synthetically diversify the Company’s investments, which limits the Company’s exposure to a single credit event.

**Cash Flow Hedges**

The following table presents the effects of derivatives in qualified cash flow hedging relationships, for the years ended December 31, 2017 and 2016 (in millions):

	Gain (loss) recognized in OCI (effective portion) <sup>(1)</sup>		Gain (loss) reclassified from AOCI into net income (effective portion)					
			Net investment gains (losses)	Net investment income	Interest credited to policyholders' account balances			
<b>2017</b>								
Foreign currency swaps	\$	(10)	\$	(5)	\$	2	\$	—
Interest rate swaps		1		17		6		—
Total	\$	(9)	\$	12	\$	8	\$	—
<b>2016</b>								
Foreign currency swaps	\$	(21)	\$	16	\$	3	\$	(5)
Interest rate swaps		(31)		(8)		7		—
Total	\$	(52)	\$	8	\$	10	\$	(5)

<sup>1</sup> The amount of gain or (loss) recognized in OCI is reported as a change in net unrealized investment gains or losses, a component of AOCI.

In 2017 and 2016, there were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transactions for which a hedge was entered into did not occur on the anticipated date or in the additional time period permitted under the authoritative guidance on derivatives and hedging.

There were no hedged forecasted transactions, other than receipt or payment of variable interest payments.

For derivatives which are designated for hedge accounting, there were no components of the derivative's gain or loss excluded from the assessment of effectiveness for the years ended December 31, 2017 and 2016.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

Presented below is a rollforward of the components of AOCI, before taxes, related to cash flow hedges (in millions):

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 199	\$ 264
Gains deferred in OCI on the effective portion of cash flow hedges	(9)	(52)
Gains reclassified to net income	(20)	(13)
Balance, end of year	<u>\$ 170</u>	<u>\$ 199</u>

At December 31, 2017, gains of \$6 million on derivatives in AOCI are expected to be reclassified to earnings within the next 12 months

**Net Investment Hedges**

The following table presents the effects of derivatives in net investment hedging relationships, for the years ended December 31, 2017 and 2016 (in millions):

	<b>Gain (loss) recognized in OCI (effective portion)<sup>(1)</sup></b>		<b>Loss reclassified from AOCI into net income (effective portion)<sup>(2)</sup></b>		<b>Loss recognized in net income (ineffective portion)<sup>(2)</sup></b>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign currency forwards	\$ (4)	\$ (2)	\$ (2)	\$ —	\$ —	\$ —
Foreign currency swaps	—	—	—	—	—	—
Total	<u>\$ (4)</u>	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

<sup>1</sup> The amount of gain is reflected in OCI as part of the foreign currency translation adjustment.

<sup>2</sup> The amount is reported in net investment gains or losses.

Presented below is a rollforward of the components of AOCI, before taxes, related to net investment hedges (in millions):

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ (198)	\$ (196)
Gains deferred in OCI on the effective portion of net investment hedges	(4)	(2)
Losses reclassified to net income	2	—
Balance, end of year	<u>\$ (200)</u>	<u>\$ (198)</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Derivatives Not Designated**

The Company has derivative instruments that are not designated or do not qualify for hedge accounting treatment.

The following table provides gains and losses on derivative instruments not designated for hedge accounting, which are included in Net investment gains (losses) in the Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 (in millions):

<b>Derivative Type</b>	<u>2017</u>	<u>2016</u>
Interest rate options	(58) \$	(10)
Equity options	—	(13)
Equity swaps	(14)	8
Foreign currency forwards	(34)	12
Foreign currency swaps	(349)	72
Futures	(29)	(5)
Inflation swaps	(15)	29
Interest rate swaps	8	170
Synthetic GICs	(1)	—
Credit default swaps:		
Buy protection	(12)	(22)
Sell protection	7	8
Net investment (losses) gains	<u>\$ (497)</u>	<u>\$ 249</u>

**Credit Derivatives Written**

The Company enters into CDS both to buy protection from, and sell protection to counterparties in the event of default of a single name reference obligation or a referenced pool of assets. At December 31, 2017, all of the underlying reference obligations of the CDS in which the Company sells protection are investment grade. The single name CDS contracts, in which the Company sells protection, mature within five years. The maximum amount the Company would be required to pay under swaps in which credit protection was sold, assuming all reference obligations default at a total loss without recoveries, would be \$1,222 million and \$1,255 million at December 31, 2017 and 2016, respectively. The market value of swaps for credit protection sold was a net asset of \$20 million and \$21 million at December 31, 2017 and 2016, respectively.

**Embedded Derivatives**

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. At December 31, 2017 and 2016, there were no embedded derivatives that could not be separated from their host contracts.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 7 – DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT (continued)**

The following table presents the fair value of the Company’s embedded derivatives in host contracts at December 31, 2017 and 2016 (in millions):

<b>Host Contracts</b>	<b>Consolidated Statements of Financial Position Line Item</b>	<b>2017</b>	<b>2016</b>
Guaranteed Minimum Accumulation Benefits	Policyholders' account balances	\$ 33	\$ 180
Immediate Participation Guarantee Contracts <sup>(1)</sup>	Policyholders' account balances	461	329
Separate account index	Policyholders' account balances	32	21
Other	Other liabilities	154	143
Total		<u>\$ 680</u>	<u>\$ 673</u>

<sup>1</sup> For further information on these embedded derivatives refer to Note 9 - Fair Value Measurements.

The following table presents the changes in fair value related to embedded derivatives for the years ended December 31, 2017 and 2016 (in millions):

<b>Consolidated Statement of Operations</b>	<b>2017</b>	<b>2016</b>
Net investment gains (losses)	\$ 2	\$ (6)
Other loss	\$ (13)	\$ (6)
Interest credited to policyholders' account balances	\$ (4)	\$ 22

**NOTE 8 - SEPARATE ACCOUNTS**

**Separate Accounts Registered with the SEC**

The Company maintains separate accounts, which are registered with the SEC, for its variable deferred annuity and variable life insurance products with assets of \$31,837 million and \$28,018 million at December 31, 2017 and 2016, respectively. The assets in these separate accounts are comprised of investments in shares of the New York Life sponsored MainStay VP Funds Trust and other non-proprietary insurance-dedicated funds.

**Separate Accounts Not Registered with the SEC**

The Company also maintains separate accounts, which are not registered with the SEC, with assets of \$11,110 million and \$10,946 million at December 31, 2017 and 2016, respectively. The assets in these separate accounts are comprised of hedge funds, investments in MainStay VP Funds Trust, non-proprietary mutual funds, privately placed corporate bonds, mortgage-backed and asset-backed securities, as well as publicly traded investment grade corporate bonds, high-yield bonds, treasury bonds, equities and limited partnerships. The assets in these separate accounts are carried at fair value.

Refer to Note 12 - Policyholders’ Liabilities for information regarding separate accounts with contractual guarantees for guaranteed minimum death benefits (“GMDB”), guaranteed minimum accumulation benefits (“GMAB”), enhanced beneficiary benefit (“EBB”) and guaranteed future income benefits (“GFIB”).

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 - FAIR VALUE MEASUREMENTS**

**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. The Company's assets and liabilities recorded at fair value, except certain assets for which the NAV per share is used as a practical expedient, are measured and classified in accordance with a fair value hierarchy consisting of three levels based on the observability of the inputs used in measuring the fair value. The level is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy based on the inputs to the valuation are 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 of its financial instruments.

Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from nationally recognized third party pricing services. For most private placement securities, the Company applies a matrix-based pricing methodology, which uses spreads derived from third party benchmark bond indices. For private placement securities that cannot be priced through these processes, the Company uses internal models and calculations. All other securities are submitted to independent brokers for prices. The Company performs various analyses to ascertain that the prices represent fair value. Examples of procedures performed include, but are not limited to, back testing recent trades, monitoring of trading volumes, and performing variance analysis

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

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 which 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.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

The following tables represent the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016 (in millions):

	<b>2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV as a Practical Expedient<sup>(2)</sup></b>	<b>Total</b>
<b>Fixed maturities - available-for-sale</b>					
U.S. Treasury	\$ —	\$ 2,189	\$ —	\$ —	\$ 2,189
U.S. government corporations & agencies	—	8,105	20	—	8,125
U.S. agency mortgage-backed and asset-backed securities	—	29,320	2	—	29,322
Foreign governments	—	3,875	22	—	3,897
U.S. corporate	—	88,724	170	—	88,894
Foreign corporate	—	21,477	33	—	21,510
Non-agency residential mortgage-backed securities	—	2,133	16	—	2,149
Non-agency commercial mortgage-backed securities	—	10,729	592	—	11,321
Non-agency asset-backed securities	—	11,759	1,478	—	13,237
<b>Total fixed maturities - available-for-sale</b>	<b>—</b>	<b>178,311</b>	<b>2,333</b>	<b>—</b>	<b>180,645</b>
<b>Fixed maturities - securities, at fair value</b>					
U.S. Treasury	—	649	—	—	649
U.S. government corporations & agencies	—	229	—	—	229
U.S. agency mortgage-backed and asset-backed securities	—	768	—	—	768
Foreign governments	—	212	23	—	235
U.S. corporate	—	9,279	72	—	9,351
Foreign corporate	—	5,357	21	—	5,378
Non-agency residential mortgage-backed securities	—	32	—	—	32
Non-agency commercial mortgage-backed securities	—	491	22	—	513
Non-agency asset-backed securities	—	502	89	—	591
Redeemable preferred securities	—	236	—	—	236
<b>Total fixed maturities - securities, at fair value</b>	<b>—</b>	<b>17,755</b>	<b>227</b>	<b>—</b>	<b>17,982</b>
<b>Equity securities</b>					
Common stock	2,860	3	187	—	3,050
Non-redeemable preferred stock	—	66	47	—	113
Mutual funds and ETFs	720	—	1	55	776
<b>Total equity securities</b>	<b>3,580</b>	<b>69</b>	<b>235</b>	<b>55</b>	<b>3,939</b>
Securities purchased under agreements to resell	—	538	—	—	538
Mortgage loans	—	—	1,254	—	1,254
Investment, at fair value, of consolidated investment companies	634	1,120	3,449	293	5,496
Loans of certain consolidated VIEs	—	1,500	—	—	1,500
Derivative assets (including embedded derivatives)	—	615	23	—	638
Short term investments	—	129	—	—	129
Other invested assets	—	118	—	—	118
Cash equivalents	1,166	4,368	—	—	5,534
Separate account assets	36,848	4,899	3	1,197	42,947
Limited partnerships/Limited liability companies	—	—	2	13	15
Reinsurance recoverable	—	—	3,700	1	3,701
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 42,228</b>	<b>\$ 209,422</b>	<b>\$ 11,226</b>	<b>\$ 1,559</b>	<b>\$ 264,436</b>
Policyholders' account balances	\$ —	\$ —	\$ 1,733	\$ —	\$ 1,733
Future policy benefits	—	—	8,326	—	8,326
Dividends payable to policyholders	—	—	73	—	73
Policy claims	—	—	165	—	165
Debt	—	1,495	291	—	1,786
Reinsurance payable	—	—	4,330	—	4,330
Derivative liabilities	—	375	148	—	523
All other liabilities	64	—	64	—	128
<b>Total liabilities accounted for at fair value on a recurring basis<sup>(1)</sup></b>	<b>\$ 64</b>	<b>\$ 1,870</b>	<b>\$ 15,130</b>	<b>\$ —</b>	<b>\$ 17,064</b>

<sup>1</sup> Separate account liabilities are not included above as they are reported at contract value in accordance with the Company's policy (refer to Note 3 - Significant Accounting Policies).

<sup>2</sup> The fair value amounts presented in each category are intended to permit reconciliation of the total assets in this table to the amounts presented in the Consolidated Statements of Financial Position.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<b>2016</b>				
	Level 1	Level 2	Level 3	NAV as a Practical Expedient <sup>(2)</sup>	Total
<b>Fixed maturities - available-for-sale</b>					
U.S. Treasury	\$ —	\$ 3,225	\$ —	\$ —	\$ 3,225
U.S. government corporations & agencies	—	8,009	38	—	8,047
U.S. agency mortgage-backed and asset-backed securities	—	27,075	85	—	27,160
Foreign governments	—	3,830	15	—	3,845
U.S. corporate	—	80,325	284	—	80,609
Foreign corporate	—	22,107	2	—	22,109
Non-agency residential mortgage-backed securities	—	2,237	9	—	2,246
Non-agency commercial mortgage-backed securities	—	9,592	427	—	10,019
Non-agency asset-backed securities	—	10,967	1,796	—	12,763
<b>Total fixed maturities - available-for-sale</b>	<b>—</b>	<b>167,367</b>	<b>2,656</b>	<b>—</b>	<b>170,023</b>
<b>Fixed maturities - securities, at fair value</b>					
U.S. Treasury	—	845	—	—	845
U.S. government corporations & agencies	—	224	—	—	224
U.S. agency mortgage-backed and asset-backed securities	—	646	—	—	646
Foreign governments	—	207	28	—	235
U.S. corporate	—	8,407	96	—	8,503
Foreign corporate	—	4,688	22	—	4,710
Non-agency residential mortgage-backed securities	—	29	1	—	30
Non-agency commercial mortgage-backed securities	—	417	26	—	443
Non-agency asset-backed securities	—	398	120	—	518
Redeemable preferred securities	—	305	—	—	305
<b>Total fixed maturities - securities, at fair value</b>	<b>—</b>	<b>16,166</b>	<b>293</b>	<b>—</b>	<b>16,459</b>
<b>Equity securities</b>					
Common stock	2,259	—	91	—	2,350
Non-redeemable preferred stock	—	59	34	—	93
Mutual funds and ETFs	669	—	—	48	717
<b>Total equity securities</b>	<b>2,928</b>	<b>59</b>	<b>125</b>	<b>48</b>	<b>3,160</b>
Securities purchased under agreements to resell	—	607	—	—	607
Mortgage loans	—	—	1,329	—	1,329
Investment, at fair value, of consolidated investment companies	637	904	3,445	250	5,236
Loans of certain consolidated VIEs	—	1,813	—	—	1,813
Derivative assets (including embedded derivatives)	—	1,218	81	—	1,299
Short term investments	—	226	—	—	226
Other invested assets	—	54	—	—	54
Cash equivalents	872	4,543	—	—	5,415
Separate account assets	32,204	5,391	11	1,358	38,964
Limited partnerships/Limited liability companies	—	—	1	12	13
Reinsurance recoverable	—	—	3,824	—	3,824
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 36,641</b>	<b>\$ 198,348</b>	<b>\$ 11,765</b>	<b>\$ 1,668</b>	<b>\$ 248,422</b>
Policyholders' account balances	\$ —	\$ —	\$ 1,794	\$ —	\$ 1,794
Future policy benefits	—	—	8,603	—	8,603
Dividends payable to policyholders	—	—	76	—	76
Policy claims	—	—	147	—	147
Debt	—	1,766	256	—	2,022
Reinsurance payable	—	—	4,433	—	4,433
Derivative liabilities	—	587	135	—	722
All other liabilities	45	—	50	—	95
<b>Total liabilities accounted for at fair value on a recurring basis<sup>(1)</sup></b>	<b>\$ 45</b>	<b>\$ 2,353</b>	<b>\$ 15,494</b>	<b>\$ —</b>	<b>\$ 17,892</b>

<sup>1</sup> Separate account liabilities are not included above as they are reported at contract value in accordance with the Company's policy (refer to Note 3 - Significant Accounting Policies).

<sup>2</sup> The fair value amounts presented in each category are intended to permit reconciliation of the total assets in this table to the amounts presented in the Consolidated Statements of Financial Position.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

The following represents a summary of significant valuation techniques for assets and liabilities used to determine fair value, as well as the general classification of such instruments in the valuation hierarchy.

***Fixed maturities available for sale and Securities at fair value***

Securities priced using a pricing service are generally classified as Level 2. The pricing service generally uses an income based valuation approach by using a discounted cash-flow model or a market approach by looking at recent trades of a specific security to determine fair value on public securities or a combination of the two. 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 market approach such as a matrix-based pricing methodology, which uses spreads derived from third-party benchmark bond indices. Specifically, the Barclays Investment Grade Corporate Index is used for investment-grade securities and the Citi High Yield Cash Index is used for below investment-grade securities. These indices are two widely recognizable, reliable and well regarded benchmarks by participants in the financial industry, which represents the broader U.S. public bond markets.

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.

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.

***Equity securities***

Securities valued using unadjusted quoted prices in active markets that are readily and regularly available are classified as Level 1. Those securities valued using a market approach in which market quotes are available but are not considered actively traded are classified as Level 2. Securities priced through an internal valuation where significant inputs are deemed to be unobservable, which includes securities of a government organization, are classified as Level 3.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

For equity investments that do not have a readily available fair value, NAV is used as a practical expedient. These investments utilize various investment strategies, are redeemed quarterly and monthly, and have a redemption notice periods of 45-150 days.

***Securities purchased under agreements to resell***

Due to the short-term nature (generally one month) of these securities, the asset's carrying value approximates fair value. These investments are classified as Level 2.

***Mortgage loans***

The estimated fair value of mortgage loans held for investment and accounted for using the fair value option is determined using an income approach, 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, which takes into account property type, LTV and remaining term of each loan. The spread is a significant component of the pricing inputs, and therefore, these investments are classified as Level 3.

***Investment, at fair value, of consolidated investment companies***

These investments consist of equity investments and fixed maturities held in consolidated limited partnerships. The valuation of the equity investments is derived using a market approach based on unadjusted quoted prices in active markets that are readily and regularly available, and are classified as Level 1. The value of the fixed maturity investments is obtained from third-party pricing services, and is classified as Level 2. These also contain the cash equivalents held in a consolidated VIE as discussed in Note 6 - Investments. However, when the assets of the consolidated limited partnership are valued using models that contain significant unobservable inputs, they are classified as Level 3.

The Company uses the NAV as practical expedient to determine the fair value of all the underlying investments in consolidated limited partnerships which (1) do not have a readily determinable fair value and (2) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. These investments utilize various investment strategies, are redeemed quarterly and monthly, and have a redemption notice periods of 45-150 days.

***Loans of certain consolidated VIEs***

These assets are third party loans held in the collateralized structures discussed in Note 6 - Investments. The fair value of these assets is determined based on information obtained from a third-party pricing service, and they are classified as Level 2.

***Derivative assets and liabilities***

The fair value of derivative instruments is generally derived using valuation models that use an income approach, except for derivatives, which are either exchange-traded, or the fair value is derived using broker quotations. 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, non-performance risk and other factors. Exchange-traded derivatives are valued using a market approach as fair value is based on quoted prices in an active market and are classified as Level 1. OTC derivatives that trade in liquid markets,

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

such as currency forwards, swaps and options, 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.

When appropriate, valuations of OTC-bilateral derivatives are adjusted for non-performance risk. The Company uses default estimates implied by CDS spreads on senior obligations of the counterparty in order to provide an objective basis for such estimates. When in a liability position, the Company uses its own medium term note spread to estimate the default rate. The non-performance risk adjustment is applied only to the uncollateralized portion of the OTC-bilateral derivative assets and liabilities. OTC-bilateral derivative contracts are executed under master netting agreements with counterparties with a CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties should either party suffer a credit-rating deterioration. The vast majority of the Company's derivative agreements are with highly rated major international financial institutions.

***Short term investments***

For short term investments, amortized cost is used as the best estimate of fair value, and they are classified as Level 2.

***Other invested assets***

This represents surplus note investments, priced by a third party pricing service, where the inputs to the valuation are deemed to be observable. Therefore, it is classified as Level 2.

***Cash equivalents***

These include money market funds, treasury bills, commercial paper and other highly liquid instruments. The highly liquid instruments are classified as Level 1. All other investments are classified as Level 2, since due to their short term nature, amortized cost is used as the best estimate of fair value.

***Separate account assets***

Assets within the separate accounts are primarily invested in equities and fixed maturities. The fair value of investments in the separate accounts is calculated using the same procedures used for equities and fixed maturities in the general account.

The separate accounts also invest in limited partnerships and hedge funds. These investments are valued based on the latest NAV received using NAV as a practical expedient.

***Limited partnerships/limited liability companies***

Investments held in limited partnerships/limited liability companies ("LP/LLC") consist of investments in private equity investments, joint ventures and other investments, which are valued at fair value.

Investments in the LPs are carried at fair value, as determined by the net assets of the fund, and are therefore classified as Level 2.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

Investments in joint ventures are carried at fair value and classified as Level 3. The underlying assets of the joint ventures are valued using the same methods that the Company uses for those assets it holds directly.

The following tables provide additional information for investments that are measured at fair value using NAV as a practical expedient, as allowed under authoritative guidance, for investments that meet specified criteria (in millions):

		<b>2017</b>			
<b>Category of Investment</b>	<b>Investment Strategy</b>	<b>Fair Value Determined Using NAV</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Hedge Fund	Multi-strategy, Long/short equity, Sector investing	\$ 648	\$ —	Annual, Semi-Annual, Quarterly, Bi-Monthly, Monthly	90 days or less (Assets subject to lock-up periods)
Private Equity	Leverage buyout and mezzanine financing	\$ 549	\$ 462	N/A	N/A
Private Equity	Leverage Buy-out funds	\$ 247	\$ 172	N/A	N/A
Limited Partnerships	Traditional asset allocation, Alternative medium/high volatility	\$ 59	\$ —	Quarterly, Monthly	90 days or less 5 days - 45 days (Assets subject to lock up periods)
Mutual Funds	Multi Strategy, Global Allocation	\$ 55	\$ —	Quarterly, Weekly	90 days or less (Assets subject to lock up periods)
		<b>2016</b>			
<b>Category of Investment</b>	<b>Investment Strategy</b>	<b>Fair Value Determined Using NAV</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Hedge Fund	Multi-strategy, Long/short equity, Sector investing	\$ 882	\$ —	Annual, Semi-Annual, Quarterly, Bi-Monthly, Monthly	90 days or less (Assets subject to lock-up periods)
Hedge Fund	Private equity leverage buyout and mezzanine financing	\$ 476	\$ 428	N/A	N/A
Private Equity	Leverage Buy-out funds	\$ 233	\$ 224	N/A	N/A
Limited Partnerships	Traditional asset allocation, Alternative medium/high volatility	\$ 29	\$ —	Annual, Monthly	90 days or less 5 days - 45 days (Assets subject to lock up periods)
Mutual Funds	Multi Strategy, Global Allocation	\$ 48	\$ —	Quarterly, weekly	90 days or less (Assets subject to lock up periods)

***Reinsurance recoverable***

Represents recoverables related to certain reinsurance assumed contracts that were partially retroceded for which the fair value option is elected. Refer to Note 14 - Reinsurance for additional details. The fair value is determined based on the estimated fair value of the underlying assets held by the Company in the portfolio backing the certain reinsurance assumed contracts that were retroceded. Certain other receivables, related to the above reinsurance contracts, which are short term in nature and the carrying value approximates the fair value. These assets are classified as Level 3, which have fair values of \$3,455 and \$3,584 at December 31, 2017 and 2016, respectively.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

***Policyholders' account balances***

Policyholders' account balances carried at fair value consist of embedded derivatives bifurcated from host contracts, which represent the embedded derivatives for GMAB and immediate participation guarantee ("IPG") contracts, and certain dividend accumulations for which the fair value option has been elected.

The fair values of GMAB and IPG liabilities are calculated as the present value of future expected payments to customers less the present value of imputed or assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various policyholder behavior assumptions. The expected cash flows are discounted using treasury rate plus a spread based upon the Company's medium term notes. The spread reflects the market's perception of the Company's non-performance risk. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models. Significant inputs to these models include capital market assumptions, such as interest rate, equity market, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the liability valuation, the liability included in Policyholders' account balances has been classified as Level 3.

The IPG contracts provide for a return through periodic crediting rates and termination adjustments that are based on the performance of a contractually referenced pool of assets owned by the Company and thus contain an embedded derivative under the authoritative guidance for derivatives. The fair value of the embedded derivative is based primarily on the fair value adjustment on the referenced pool of assets.

Dividend accumulations related to certain reinsurance assumed liabilities for which the fair value option was elected are reported at carrying value which approximates fair value and are classified as Level 3.

***Future policy benefits***

Future policy benefits carried at fair value consist of certain reinsurance assumed liabilities for which the fair value option was elected by the Company. The estimated fair value of the reinsurance assumed is reflected as i) the fair value of the permanently restricted assets net of certain liabilities which had a fair value of \$7,265 and \$7,366 at December 31, 2017 and 2016, respectively, as defined in Note 14 - Reinsurance, that must be passed back to the reinsured policyholders as future benefits or dividend payments, ii) the present value of future maintenance expenses to administer the business, and iii) the present value of future costs of capital that provides a return to the Company's policyholders for the investment in the assumed reinsurance and for the risks that the permanently restricted assets will not be sufficient to provide all required benefits. Maintenance expenses are discounted using treasury rates extrapolated to the estimated life of the insurance policies plus spreads based upon the Company's medium term notes, as discussed in the fair value of the GMAB and IPG liabilities above. Costs of capital are discounted at market consistent rates, where the market is reinsurance assumption transactions between highly rated insurance companies. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the liability valuation, the liability included in Future policy benefits has been classified as Level 3. Refer to Note 14 - Reinsurance.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

***Dividends payable to policyholders***

Dividends payable to policyholders reported at fair value are related to certain reinsurance assumed liabilities for which the fair value option was elected. The liability is reported at carrying value which approximates the fair value and is classified as Level 3.

***Policy claims***

Policy claims reported at fair value are related to certain reinsurance assumed liabilities for which the fair value option was elected. The liability is reported at carrying value which approximates the fair value and is classified as Level 3.

***Debt***

In accordance with authoritative guidance on collateralized finance entities, as of January 1, 2014, the Company has elected the measurement alternative in measuring the long-term debt of certain of its consolidated collateralized structures for which it is the investment manager. The measurement alternative allows the financial assets and the financial liabilities to be measured using the more observable of the two. The Company has measured the long-term debt of certain of its' consolidated collateralized structures using the fair value of the entities' financial assets, as their value has been deemed more observable. For discussion on the valuation of the entities assets which are classified as Level 2, see loans of certain consolidated VIEs above. Debt on collateralized structures classified as Level 3, which represent debt obligations of the collateralized structures are based on non-binding broker quotes. The Company validated the broker quotes by calculating the internal rate of return (yield to maturity) and discount margin (spread over index) for each of the debt obligations based on various scenarios. The results of the scenario analysis were used to validate the broker quotes.

***Reinsurance payable***

Primarily represents funds-withheld balances payable related to certain reinsurance assumed contracts that were partially retroceded for which the fair value option was elected. Refer to Note 14 - Reinsurance for additional details. The fair value of the funds-withheld liability is determined based on the estimated fair value of the underlying assets held by the Company in the portfolio backing the certain reinsurance assumed contracts that were retroceded. Also included are certain other payables, related to the reinsurance contracts, which are of short term nature where carrying value approximates the fair value. These payables are classified as Level 3, which have fair values of \$4,330 million and \$4,433 million at December 31, 2017 and 2016.

***Other liabilities***

Other liabilities include consideration payable related to acquisition activity which is required to be measured at fair value. The liability is valued using models that contain significant unobservable inputs and therefore is classified as Level 3.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

**Level 3 Assets and Liabilities by Price Source**

The following tables present the balances of Level 3 assets and liabilities measured at fair value with their corresponding pricing sources at December 31, 2017 and 2016 (in millions):

	2017		
	Internal <sup>(1)</sup>	External <sup>(2)</sup>	Total
<b>Fixed maturities - available-for-sale</b>			
U.S. government corporations & agencies	\$ —	\$ 20	\$ 20
U.S. agency mortgage-backed and asset-backed securities	1	1	2
Foreign governments	—	22	22
U.S. corporate	76	94	170
Foreign corporate	—	33	33
Non-agency residential mortgage-backed securities	8	8	16
Non-agency commercial mortgage-backed securities	115	477	592
Non-agency asset-backed securities	152	1,326	1,478
<b>Total fixed maturities - available-for-sale</b>	<b>352</b>	<b>1,981</b>	<b>2,333</b>
<b>Fixed maturities - securities, at fair value</b>			
Foreign governments	20	3	23
U.S. corporate	5	67	72
Foreign corporate	—	21	21
Non-agency commercial mortgage-backed securities	9	13	22
Non-agency asset-backed securities	16	73	89
<b>Total fixed maturities - securities, at fair value</b>	<b>50</b>	<b>177</b>	<b>227</b>
<b>Equity securities</b>			
Common stock	185	2	187
Non-redeemable preferred stock	47	—	47
Mutual fund	—	1	1
<b>Total equity securities</b>	<b>232</b>	<b>3</b>	<b>235</b>
Mortgage loans	1,254	—	1,254
Investment, at fair value, of consolidated investment companies	3,447	2	3,449
Derivative assets (including embedded derivatives)	1	21	23
Separate account assets	—	3	3
Limited partnerships/Limited liability companies	1	1	2
Reinsurance recoverable	3,700	—	3,700
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 9,037</b>	<b>\$ 2,188</b>	<b>\$ 11,226</b>
Policyholders' account balances	\$ 1,733	\$ —	\$ 1,733
Future policy benefits	8,326	—	8,326
Dividends payable to policyholders	73	—	73
Policy claims	165	—	165
Debt	—	291	291
Reinsurance payable	4,330	—	4,330
Derivative liabilities	—	148	148
Other liabilities	64	—	64
<b>Total liabilities accounted for at fair value on a recurring basis</b>	<b>\$ 14,691</b>	<b>\$ 439</b>	<b>\$ 15,130</b>

<sup>1</sup> Represents valuations reflecting both internally-derived and market inputs, as well as third-party pricing inputs that are deemed to be unobservable.

<sup>2</sup> Primarily represents independent non-binding broker quotes where pricing inputs are not readily available.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	2016		
	Internal <sup>(1)</sup>	External <sup>(2)</sup>	Total
<b>Fixed maturities - available-for-sale</b>			
U.S. government corporations & agencies	\$ —	\$ 38	\$ 38
U.S. agency mortgage-backed and asset-backed securities	77	8	85
Foreign governments	—	15	15
U.S. corporate	131	153	284
Bonds to subsidiaries and affiliates	—	2	2
Non-agency residential mortgage-backed securities	—	9	9
Non-agency commercial mortgage-backed securities	205	222	427
Non-agency asset-backed securities	311	1,485	1,796
<b>Total fixed maturities - available-for-sale</b>	<b>724</b>	<b>1,932</b>	<b>2,656</b>
<b>Fixed maturities - securities, at fair value</b>			
Foreign governments	25	3	28
U.S. corporate	7	89	96
Foreign corporate	—	22	22
Non-agency residential mortgage-backed securities	—	1	1
Non-agency commercial mortgage-backed securities	20	6	26
Non-agency asset-backed securities	4	116	120
<b>Total fixed maturities - securities, at fair value</b>	<b>56</b>	<b>237</b>	<b>293</b>
<b>Equity securities</b>			
Common stock	89	2	91
Non-redeemable preferred stock	34	—	34
<b>Total equity securities</b>	<b>123</b>	<b>2</b>	<b>125</b>
Mortgage loans	1,329	—	1,329
Investment, at fair value, of consolidated investment companies	3,445	—	3,445
Derivative assets	3	78	81
Separate account assets	—	11	11
Limited partnership/Limited Liability Companies	1	—	1
Reinsurance recoverable	3,824	—	3,824
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 9,505</b>	<b>\$ 2,260</b>	<b>\$ 11,765</b>
Policyholders' account balances	\$ 1,794	\$ —	\$ 1,794
Future policy benefits	8,603	—	8,603
Dividends payable to policyholders	76	—	76
Policy claims	147	—	147
Debt	256	—	256
Reinsurance payable	4,433	—	4,433
Derivative liabilities	—	135	135
Other liabilities	50	—	50
<b>Total liabilities accounted for at fair value on a recurring basis</b>	<b>\$ 15,359</b>	<b>\$ 135</b>	<b>\$ 15,494</b>

<sup>1</sup> Represents valuations reflecting both internally-derived and market inputs, as well as third-party pricing inputs that are deemed to be unobservable.

<sup>2</sup> Primarily represents independent non-binding broker quotes where pricing inputs are not readily available.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

**Quantitative Information Regarding Internally – Priced Level 3 Assets and Liabilities**

The following tables present quantitative information on significant internally priced Level 3 assets and liabilities at December 31, 2017 and 2016 (in millions):

2017					
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)	
<b>Assets:</b>					
U.S. corporate <sup>3</sup>	\$ 81	Discounted Cash Flow	Discount Rate	2.7% - 18.5% (6.1%)	
Non-agency asset-backed securities <sup>3</sup>	\$ 168	Discounted Cash Flow	Discount Rate	4.0% - 9.9% (5.6%)	
Non-agency commercial mortgage-backed securities <sup>3</sup>	\$ 124	Discounted Cash Flow	Discount Rate	3.6% - 3.9% (3.7%)	
		Market Comparable	Price to Book Multiple	5.35x (6.2%)	
Equity securities	\$ 50	Market Comparable	Revenue Multiple	2.8x - 15.3x	
Investment, at fair value of consolidated investment companies	\$ 3,447	Market Comparable	EBITDA Multiple <sup>1</sup>	1.5x - 28x	
		Discounted Cash Flow	Discount Rate	6.00% - 15.0% (6.98%)	
			Capitalization Rate	4.75%-7.50% (6.11%)	
			Revenue Growth Rate	1.0% - 15.0%	
Mortgage loans	\$ 1,254	Discounted Cash Flow	Discount Rate	3.25% - 4.10% (3.66%)	
				Terminal EBITA Multiple	4x - 8.9x
Reinsurance recoverable	\$ 245	Discounted Cash Flow	Discount Rate	1.52% - 6.29%	
				Mortality Rate	0.01%-50%
				Lapse Rate	1.42%-97%
<b>Liabilities:</b>					
Policyholders' account balances	\$ 1,733	Discounted Cash Flow (GMAB)	Equity Returns	1.2% - 9.2%	
			Equity Volatility Curve	16.2%-75.5%	
			Lapse Rate	1.0%-31.5%	
			Mortality Rate	0.01%-50.0%	
			Utilization Rate	0% - 100%	
			Withdrawal Rate	2.5% - 8.3%	
			Discount Rate	2.0%-6.8%	
	Market Value of assets (IPG)	Mark to Market <sup>2</sup>	8.9% <sup>3</sup>		
		Ratio of Liabilities to Assets by Investment Year	62.61%-130.89% (96.59%)		
		Realized Capital Gains	0.1%		
		Assumed Amortization Period	5 years		
Future policy benefits	\$ 1,061	Discounted Cash Flow	Discount Rate	1.52% - 6.29%	
				Mortality Rate	0.01%-50%
				Lapse Rate	1.42%-97%

<sup>1</sup> EBITDA multiple represents multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use these multiples when pricing the investments.

<sup>2</sup> Information received from independent third-party valuation service providers.

<sup>3</sup> Includes both Available-for-sale and Securities at fair value.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
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**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

		2016			
	Fair Value	Valuation Techniques	Unobservable Input	Range (Weighted Average)	
<b>Assets:</b>					
U.S. corporate <sup>3</sup>	\$ 138	Discounted Cash Flow	Discount Rate	2.2% - 13.8% (8.4%)	
Non-agency asset-backed securities <sup>3</sup>	\$ 315	Discounted Cash Flow	Discount Rate	4.0% - 10.4% (5.8%)	
Non-agency commercial mortgage-backed securities <sup>3</sup>	\$ 225	Discounted Cash Flow	Discount Rate	3.1% - 12.0% (4.8%)	
Equity securities	123	Market Comparable	Price to Book Multiple	0.62x	
		Market Comparable	EBITDA Multiple <sup>1</sup>	5.3x - 28.8x	
Investment, at fair value of consolidated investment companies	\$ 3,445	Market Comparable	EBITDA Multiple <sup>1</sup>	4.7x - 13.8x (10.1x)	
		Discounted Cash Flow	Discount Rate	11.9%-12.9% (12.0%)	
			Capitalization Rate	4.75% to 7.50% (6.17%)	
			Revenue Growth Rate	1.0%-8.7% (6.0%)	
Mortgage loans	\$ 1,329	Discounted Cash Flow	Discount Rate	2.61% - 4.06% (3.40%)	
Reinsurance recoverable	\$ 240	Discounted Cash Flow	Discount Rate	0.80%-7.0%	
			Mortality Rate	0.01%-50%	
			Lapse Rate	1.42%-97%	
<b>Liabilities:</b>					
Policyholders' account balances	\$ 1,794	Discounted Cash Flow (GMAB)	Equity Returns	1.5% - 7.3%	
			Equity Volatility Curve	17.5% - 62.1%	
			Lapse Rate	1.0% - 32.0%	
			Mortality Rate	0.01% - 50%	
			Utilization Rate	0% - 100%	
			Withdrawal Rate	2.5% - 8.3%	
			Discount Rate	1.5% - 7.9%	
		Market Value of Assets (IPG)	Mark to Market <sup>2</sup>	8.1% <sup>3</sup>	
			IYM Interest Crediting Rates	3.5%-6.47% (4.75%)	
			Ratio of Liabilities to Assets by Investment Year	60-1%-136.32% (97.04%)	
			Realized Capital Gains	0.1%	
			Assumed Amortization Period	5 years	
Future policy benefits	\$ 1,237	Discounted Cash Flow	Discount Rate	0.80%-7.0%	
			Mortality Rate	0.01%-50%	
			Lapse Rate	1.42%-97%	

<sup>1</sup> EBITDA multiple represents multiples of earnings before interest, taxes, depreciation and amortization, and are amounts used when the reporting entity has determined that market participants would use these multiples when pricing the investments.

<sup>2</sup> Information received from independent third-party valuation service providers.

<sup>3</sup> Includes both Available-for-sale and Securities at fair value.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

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.

***U.S. corporate***

Most corporate securities are valued using a discounted cash flow analysis based on the expected cash flows of each security. The most significant unobservable input to the valuation of these securities is the discount rate, as it usually includes spread adjustments. Significant spread widening would decrease the value of these securities. The opposite effect would occur if spreads tightened significantly. Default rates are also a component of the valuation. If expected default rates on these securities significantly increase, the fair value will decrease, with the opposite being true for significant decreases in default rates. For other corporate securities, the valuation may be performed using market comparables such as earnings before interest, taxes, depreciation and amortization (EBITDA) 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.

***Non-agency asset-backed securities and commercial mortgage-backed***

These securities are mainly valued using discounted cash flow models. Significant spread widening, spread tightening and increases and decreases in default rates will have the same impact on the fair values of these securities as described above under U.S. corporate. Significant increases in loss severity assumptions will decrease the estimated fair value of these securities with the opposite being true for decreases in expected loss severities.

***Equity securities***

Refer to Note 12 - Policyholders' Liabilities, for details on the Company's investment in Federal Home Loan Bank of New York (the "FHLB of NY") and Federal Home Loan Bank of Pittsburgh (the "FHLB of Pittsburgh") stock. As prescribed in the Capital Plan of the FHLB of NY and FHLB of Pittsburgh, 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 NY stock and FHLB of Pittsburgh stock are held at cost and, these securities have been classified as Level 3. The cost basis of the the FHLB of NY stock and FHLB of Pittsburgh stock was \$182 million and \$167 million as of December 31, 2017 and 2016, respectively. For the other equity securities included in Level 3, the valuation is performed using market comparables such as EBITDA multiples or 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.

***Investments, at fair value of consolidated investment companies***

These are comprised of investments in consolidated limited partnerships and real estate investment partnerships. The significant unobservable inputs used in the fair value measurement of the limited partnerships are a discounted cash flow analysis, which includes a discount rate and terminal value net operating income growth rate. A significant increase (decrease) in a discount rate and/or terminal value would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in a net operating income growth rate would result in a significantly higher (lower) fair value measurement. Generally, a change in a net operating income growth rate or absorption rate would be accompanied by a directionally similar change in the discount rate. For the real estate investment, generally, fair value estimates are based on property appraisal reports with the key input being rental income and expense amounts related to growth rates and discount rates. Significant decrease

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**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

(increase) in the value of real estate assets based on third party appraisals or sales of comparable properties would result in a decrease (increase) in the value of these assets.

***Mortgage loans***

The estimated fair value of mortgage loans held for investment and accounted for using the fair value option is determined based upon the present value of the expected cash flows, discounted at an interpolated treasury yield plus a spread. Any increase (decrease) in the discount rate, will decrease (increase) the value of the investment.

***Other assets***

Any increase (decrease) in the Future policy benefits related to the retrocession of the certain reinsurance assumed will increase (decrease) the value of the reinsurance recoverable.

***Policyholders' account balances***

Policyholders' account balances consist of embedded derivatives bifurcated from host contracts, which represent the embedded derivatives for GMAB and IPG contracts. The fair values of GMAB liabilities are calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. Generally, higher (lower) equity returns will result in lower (higher) fair value liability while higher (lower) implied volatility assumptions will result in higher (lower) fair value liability.

The fair value of the IPG embedded derivative is primarily based on the fair value of a referenced pool of assets. Any increase (decrease) in the market value of these assets will increase (decrease) the value of this derivative. Any increase (decrease) in the interest rate, increases (decreases) the value of the embedded derivative. Similarly any increase (decrease) in the transfer rate of assets, will decrease (increase) the embedded derivative. If both the interest rate and transfer rate increase (decrease), the value of the embedded derivative will decrease (increase).

***Future policy benefits***

Fair value of Future policy benefits balances, which represents the fair value of certain reinsurance assumed liabilities, are based on the fair value of the permanently restricted assets supporting those liabilities, the present value of future maintenance expenses and the cost of capital for those liabilities. Any increase (decrease) in the market value of the permanently restricted assets will increase (decrease) the value of the reinsurance liability which will have no net impact on the Company's financial position. Any increase (decrease) in the liability interest rate for the present value of future maintenance expenses and the cost of capital, will decrease (increase) the value of the reinsurance liability.

***Transfers between Levels***

Transfers between levels may occur as a result of 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. The Company's policy is to assume the transfer occurs at the beginning of the period.

***Transfers between Levels 1 and 2***

Periodically, the Company has transfers between Level 1 and Level 2 for assets and liabilities. Transfers between Levels 1 and 2 were not significant during the 12 months ended December 31, 2017 and 2016.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

***Transfers into and out of Level 3***

The Company's basis for transferring assets and liabilities into and/or out of Level 3 is based on the changes in the observability of data.

Assets and liabilities are transferred into Level 3 when a significant input cannot be corroborated with market observable data. This occurs when market activity decreases significantly and underlying inputs cannot be observed, current prices are not available, and/or when there are significant variances in quoted prices, thereby affecting transparency. Assets and liabilities are transferred out of Level 3 when circumstances change such that a significant input can be corroborated with market observable data. This may be due to a significant increase in market activity, a specific event, or one or more significant input(s) becoming observable.

During the years ended December 31, 2017 and 2016, the Company transferred \$425 million and \$582 million, respectively, of securities into Level 3 consisting of fixed maturities available-for-sale, fixed maturities securities at fair value, investments at fair value of consolidated investment companies, and separate account assets. The transfers into Level 3 related to fixed maturities available-for-sale securities were primarily due to unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third-party pricing services (that could be validated) was utilized.

Transfers out of Level 3 of \$1,191 million and \$1,690 million during the years ended December 31, 2017 and 2016, respectively, were primarily due to significant increase in market activity, one or more significant input (s) becoming observable, or a change in the valuation technique for fixed maturities available-for-sale, fixed maturities securities at fair value, investments at fair value of consolidated investment companies, loans of certain consolidated VIEs, and separate account assets in 2017 and 2016.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

The following tables present the changes in fair value of all Level 3 assets and liabilities for the years ended December 31, 2017 and 2016 (in millions):

	U.S. government corporations and agencies	U.S. agency mortgage- backed and asset-backed	Foreign governments	U.S. corporate	Foreign corporate
<b>Fair Value, December 31, 2015</b>	\$ 39	\$ 9	\$ 18	\$ 288	\$ —
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	—	—	(32)	—
Net investment income <sup>(1)</sup>	—	—	—	(6)	—
Other comprehensive income	(1)	82	—	23	—
Purchases	—	1,003	—	35	1
Sales	—	—	—	(18)	—
Issuance	—	—	—	(16)	—
Settlements	—	(1,009)	(3)	(61)	—
Transfers into Level 3 <sup>(2)</sup>	—	—	—	178	1
Transfers out of Level 3 <sup>(2)</sup>	—	—	—	(107)	—
<b>Fair Value, December 31, 2016</b>	<b>38</b>	<b>85</b>	<b>15</b>	<b>284</b>	<b>2</b>
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	—	—	(13)	—
Net investment income <sup>(1)</sup>	—	—	—	(4)	—
Other comprehensive income	—	(76)	—	(4)	—
Purchases	—	1	10	35	31
Sales	—	—	—	(74)	(1)
Issuances	—	—	—	—	—
Settlements	(18)	—	(3)	(39)	—
Transfers into Level 3 <sup>(2)</sup>	—	—	—	62	1
Transfers out of Level 3 <sup>(2)</sup>	—	(8)	—	(77)	—
<b>Fair Value, December 31, 2017</b>	<b>\$ 20</b>	<b>\$ 2</b>	<b>\$ 22</b>	<b>\$ 170</b>	<b>\$ 33</b>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<b>Non-agency residential mortgage- backed securities</b>	<b>Non-agency commercial mortgage- backed securities</b>	<b>Non-agency asset-backed securities</b>	<b>Total fixed maturities - available - for - sale</b>
<b>Fair Value, December 31, 2015</b>	\$ 13	\$ 710	\$ 1,596	\$ 2,673
Total gains or (losses) (realized and unrealized):				
Included in earnings				
Net investment gains (losses)	—	(3)	(25)	(60)
Net investment income <sup>(1)</sup>	—	—	1	(5)
Other comprehensive income	—	(2)	11	113
Purchases	—	137	816	1,992
Sales	—	—	—	(18)
Issuance	—	—	—	(16)
Settlements	(5)	(5)	(286)	(1,369)
Transfers into Level 3 <sup>(2)</sup>	1	14	209	403
Transfers out of Level 3 <sup>(2)</sup>	—	(424)	(526)	(1,057)
<b>Fair Value, December 31, 2016</b>	<u>9</u>	<u>427</u>	<u>1,796</u>	<u>2,656</u>
Total gains or (losses) (realized and unrealized):				
Included in earnings				
Net investment gains (losses)	—	(1)	(23)	(37)
Net investment income <sup>(1)</sup>	—	—	—	(4)
Other comprehensive income	1	(1)	25	(55)
Purchases	—	305	778	1,160
Sales	—	—	(68)	(143)
Issuances	—	—	—	—
Settlements	(4)	(6)	(399)	(469)
Transfers into Level 3 <sup>(2)</sup>	10	—	235	308
Transfers out of Level 3 <sup>(2)</sup>	—	(132)	(866)	(1,083)
<b>Fair Value, December 31, 2017</b>	<u>\$ 16</u>	<u>\$ 592</u>	<u>\$ 1,478</u>	<u>\$ 2,333</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<u>Foreign governments</u>	<u>U.S. corporate</u>	<u>Foreign corporate</u>	<u>Non-agency residential mortgage- backed securities</u>	<u>Non-agency commercial mortgage- backed securities</u>
<b>Fair Value, December 31, 2015</b>	\$ 33	\$ 72	\$ 12	\$ 1	\$ 35
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	(7)	1	—	(2)
Purchases	—	—	—	—	1
Sales	—	(36)	—	—	—
Issuances	—	—	—	—	—
Settlements	(5)	(9)	(4)	—	(1)
Transfers into Level 3 <sup>(2)</sup>	—	79	13	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	(3)	—	—	(7)
<b>Fair Value, December 31, 2016</b>	<u>28</u>	<u>96</u>	<u>22</u>	<u>1</u>	<u>26</u>
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	1	—	—	—
Net investment income <sup>(1)</sup>	—	—	—	—	—
Other comprehensive income	—	—	—	—	—
Purchases	—	(2)	3	—	2
Sales	—	(3)	—	—	—
Issuances	—	—	—	—	—
Settlements	(5)	(1)	(4)	(1)	—
Transfers into Level 3 <sup>(2)</sup>	—	2	—	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	(21)	—	—	(6)
<b>Fair Value, December 31, 2017</b>	<u>\$ 23</u>	<u>\$ 72</u>	<u>\$ 21</u>	<u>\$ —</u>	<u>\$ 22</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	Non-agency asset-backed securities	Total fixed maturities - securities at fair value	Common stock	Non- redeemable preferred stock	Mutual funds and ETFs
<b>Fair Value, December 31, 2015</b>	\$ 67	\$ 220	\$ 149	\$ 22	\$ 3
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	6	(2)	1	—	—
Net investment income <sup>(1)</sup>	1	1	—	—	—
Other comprehensive income	—	—	—	4	—
Purchases	64	65	27	8	—
Sales	—	(36)	—	—	—
Settlements	(16)	(35)	—	—	—
Transfers into Level 3 <sup>(2)</sup>	4	96	—	—	—
Transfers out of Level 3 <sup>(2)</sup>	(6)	(16)	(86)	—	(3)
<b>Fair Value, December 31, 2016</b>	<u>120</u>	<u>293</u>	<u>91</u>	<u>34</u>	<u>—</u>
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	5	6	4	4	—
Net investment income <sup>(1)</sup>	2	2	—	—	—
Other comprehensive income	—	—	—	—	—
Purchases	33	36	25	14	—
Sales	(1)	(4)	(19)	(5)	—
Issuances	—	—	—	—	—
Settlements	(23)	(34)	—	—	—
Transfers into Level 3 <sup>(2)</sup>	8	10	86	—	1
Transfers out of Level 3 <sup>(2)</sup>	(55)	(82)	—	—	—
<b>Fair Value, December 31, 2017</b>	<u>\$ 89</u>	<u>\$ 227</u>	<u>\$ 187</u>	<u>\$ 47</u>	<u>\$ 1</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<u>Total equity securities</u>	<u>Mortgage loans</u>	<u>Investment, at fair value, of consolidated investment companies</u>	<u>Derivative assets (including embedded)</u>	<u>Separate account assets</u>
<b>Fair Value, December 31, 2015</b>	\$ 174	\$ 1,433	\$ 3,348	\$ —	\$ —
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	1	(2)	203	(4)	—
Net investment income <sup>(1)</sup>	—	(33)	75	—	—
Other comprehensive income	4	—	—	—	—
Purchases	35	168	834	4	11
Sales	—	—	(488)	—	—
Settlements	—	(237)	—	—	—
Transfers into Level 3 <sup>(2)</sup>	—	—	1	81	—
Transfers out of Level 3 <sup>(2)</sup>	(89)	—	(528)	—	—
<b>Fair Value, December 31, 2016</b>	<u>125</u>	<u>1,329</u>	<u>3,445</u>	<u>81</u>	<u>11</u>
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	8	3	338	(58)	—
Net investment income <sup>(1)</sup>	—	(23)	(90)	—	—
Other comprehensive income	—	—	—	—	—
Purchases	39	146	487	—	—
Sales	(24)	—	(730)	—	—
Issuances	—	—	—	—	—
Settlements	—	(201)	—	—	(1)
Transfers into Level 3 <sup>(2)</sup>	87	—	20	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	—	(21)	—	(7)
<b>Fair Value, December 31, 2017</b>	<u>\$ 235</u>	<u>\$ 1,254</u>	<u>\$ 3,449</u>	<u>\$ 23</u>	<u>\$ 3</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<u>Reinsurance recoverable</u>	<u>Limited partnerships/ Limited liability companies</u>	<u>Total assets</u>	<u>Policyholders' account balances</u>	<u>Future policy benefits</u>
<b>Fair Value, December 31, 2015</b>	\$ 4,137	\$ —	\$ 11,985	\$ 1,820	\$ 8,938
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	—	136	—	—
Net investment income <sup>(1)</sup>	—	—	38	(14)	109
Other comprehensive income	—	—	117	—	—
Interest credited to p/h account balance	—	—	—	5	—
Purchases	—	—	3,109	40	—
Sales	—	—	(542)	—	—
Issuances	—	—	(16)	—	—
Settlements	(313)	—	(1,954)	(30)	(444)
Transfers into Level 3 <sup>(2)</sup>	—	1	582	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	—	(1,690)	(27)	—
<b>Fair Value, December 31, 2016</b>	<u>3,824</u>	<u>1</u>	<u>11,765</u>	<u>1,794</u>	<u>8,603</u>
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	—	260	—	(145)
Net investment income <sup>(1)</sup>	—	—	(115)	(186)	—
Other comprehensive income	—	—	(55)	—	—
Interest credited to p/h account balance	—	—	—	129	—
Purchases	—	(1)	1,867	—	—
Sales	—	—	(901)	42	—
Issuances	—	—	—	—	—
Settlements	(124)	—	(829)	(46)	(132)
Transfers into Level 3 <sup>(2)</sup>	—	—	425	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	2	(1,191)	—	—
<b>Fair Value, December 31, 2017</b>	<u>\$ 3,700</u>	<u>\$ 2</u>	<u>\$ 11,226</u>	<u>\$ 1,733</u>	<u>\$ 8,326</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<u>Dividends to policyholders</u>	<u>Policy claims</u>	<u>Debt</u>	<u>Reinsurance payables</u>	<u>Derivative liabilities</u>
<b>Fair Value, December 31, 2015</b>	\$ 80	\$ 167	\$ 285	\$ 4,570	\$ 133
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	—	(3)	—	3
Net investment income <sup>(1)</sup>	—	—	—	26	—
Sales	—	—	(26)	—	—
Settlements	(4)	(20)	—	(163)	—
Transfers into Level 3 <sup>(2)</sup>	—	—	—	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	—	—	—	—
<b>Fair Value, December 31, 2016</b>	<u>76</u>	<u>147</u>	<u>256</u>	<u>4,433</u>	<u>136</u>
Total gains or (losses) (realized and unrealized):					
Included in earnings					
Net investment gains (losses)	—	—	—	88	(2)
Net investment income <sup>(1)</sup>	—	—	—	—	14
Other comprehensive income	—	—	—	—	—
Interest credited to p/h account balance	—	—	—	—	—
Purchases	—	—	—	—	—
Sales	—	—	—	—	—
Issuances	—	—	74	—	—
Settlements	(3)	18	(173)	(191)	—
Transfers into Level 3 <sup>(2)</sup>	—	—	134	—	—
Transfers out of Level 3 <sup>(2)</sup>	—	—	—	—	—
<b>Fair Value, December 31, 2017</b>	<u>\$ 73</u>	<u>\$ 165</u>	<u>\$ 291</u>	<u>\$ 4,330</u>	<u>\$ 148</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<u>All other liabilities</u>	<u>Total liabilities</u>
<b>Fair Value, December 31, 2015</b>	\$ 41	\$ 16,033
Total gains or (losses) (realized and unrealized):		
Included in earnings		
Net investment gains (losses)	(8)	(8)
Net investment income <sup>(1)</sup>	(10)	111
Other comprehensive income	—	—
Interest credited to p/h account balance	—	5
Purchases	—	40
Sales	—	(26)
Settlements	(1)	(662)
Transfers into Level 3 <sup>(2)</sup>	28	28
Transfers out of Level 3 <sup>(2)</sup>	—	(27)
<b>Fair Value, December 31, 2016</b>	<u>50</u>	<u>15,494</u>
Total gains or (losses) (realized and unrealized):		
Included in earnings		
Net investment gains (losses)	12	(47)
Net investment income <sup>(1)</sup>	—	(172)
Other comprehensive income	—	—
Interest credited to p/h account balance	—	129
Purchases	2	2
Sales	—	42
Issuances	—	74
Settlements	—	(526)
Transfers into Level 3 <sup>(2)</sup>	—	134
Transfers out of Level 3 <sup>(2)</sup>	—	—
<b>Fair Value, December 31, 2017</b>	<u>\$ 64</u>	<u>\$ 15,130</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the period.

The following tables include the unrealized gains or losses for the years ended December 31, 2017 and 2016 by category for Level 3 assets and liabilities still held at the end of each year (in millions):

	<u>2017</u>			
	<u>U.S. corporate</u>	<u>Non-agency asset-backed securities</u>	<u>Total fixed maturities - available - for-sale</u>	<u>U.S. corporate</u>
<b>Earnings</b>				
Total gains or (losses) (realized/unrealized):				
Included in earnings				
Net investment gains (losses)	\$ (6)	\$ (5)	\$ (11)	\$ 1
Net investment income <sup>(1)</sup>	(4)	—	(4)	—
Interest credited to policyholders' account balances	—	—	—	—
Other comprehensive gains/(losses)	(3)	28	25	—
Total change in unrealized gains (losses)	<u>\$ (13)</u>	<u>\$ 23</u>	<u>\$ 10</u>	<u>\$ 1</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

	<u>Non-agency asset-backed securities</u>	<u>Total fixed maturities - securities at fair value</u>	<u>Non-redeemable preferred stock</u>	<u>Mortgage loans</u>	<u>Derivative assets</u>
<b>Earnings</b>					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	\$ 8	\$ 9	\$ 2	\$ 3	\$ (58)
Net investment income <sup>(1)</sup>	2	2	—	(20)	—
Interest credited to policyholders' account balances	—	—	—	—	—
Other comprehensive gains/(losses)	—	—	—	—	—
Total change in unrealized gains (losses)	<u>\$ 10</u>	<u>\$ 11</u>	<u>\$ 2</u>	<u>\$ (17)</u>	<u>\$ (58)</u>

	<u>Investment, at fair value, of consolidated investment companies</u>	<u>Total assets</u>	<u>Policyholders' account balances</u>	<u>Derivative liabilities</u>	<u>Other liabilities</u>
<b>Earnings</b>					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	\$ 34	\$ (21)	\$ —	\$ 2	\$ 12
Net investment income <sup>(1)</sup>	—	(22)	—	—	—
Interest credited to policyholders' account balances	—	—	129	—	—
Other comprehensive gains/(losses)	—	25	—	—	—
Total change in unrealized gains (losses)	<u>\$ 34</u>	<u>\$ (18)</u>	<u>\$ 129</u>	<u>\$ 2</u>	<u>\$ 12</u>

**Total liabilities**

<b>Earnings</b>	
Total gains or (losses) (realized/unrealized)	
Included in earnings:	
Net investment gains (losses)	\$ 14
Net investment income <sup>(1)</sup>	—
Interest credited to policyholders' account balances	129
Other comprehensive gains/(losses)	—
Total change in unrealized gains (losses)	<u>\$ 143</u>

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

2016					
U.S. corporate	Non-agency commercial mortgage-backed securities	Non-agency asset- backed securities	Total fixed maturities - available - for- sale	U.S. corporate	
<b>Earnings</b>					
Total gains or (losses) (realized/unrealized)					
Included in earnings:					
Net investment gains (losses)	\$ (32)	\$ (3)	\$ (25)	\$ (60)	\$ (6)
Net investment income <sup>(1)</sup>	(6)	—	1	(5)	—
Other comprehensive gains/(losses)	22	(2)	12	32	—
Total change in unrealized gains (losses)	\$ (16)	\$ (5)	\$ (12)	\$ (33)	\$ (6)

Foreign corporate	Non-agency commercial mortgage-backed securities	Non-agency asset- backed securities	Total fixed maturities - securities at fair value	Common stock	
<b>Earnings</b>					
Total gains or (losses) (realized/unrealized)					
Included in earnings:					
Net investment gains (losses)	\$ 1	\$ (2)	\$ 6	\$ (1)	\$ 1
Net investment income <sup>(1)</sup>	—	—	1	1	—
Total change in unrealized gains (losses)	\$ 1	\$ (2)	\$ 7	\$ —	\$ 1

Non-redeemable preferred stock	Total equity securities	Mortgage loans	Investment, at fair value, of consolidated investment companies	Total assets	
<b>Earnings</b>					
Total gains or (losses) (realized/unrealized)					
Included in earnings:					
Net investment gains (losses)	\$ —	\$ 1	\$ (2)	\$ 49	\$ (13)
Net investment income <sup>(1)</sup>	—	—	(24)	—	(28)
Other comprehensive gains/(losses)	4	4	—	—	36
Total change in unrealized gains (losses)	\$ 4	\$ 5	\$ (26)	\$ 49	\$ (5)

Policyholders' account balances	Debt	Other liabilities	Total liabilities	
<b>Earnings</b>				
Total gains or (losses) (realized/unrealized)				
Included in earnings:				
Net investment gains (losses)	\$ —	\$ (3)	\$ (8)	\$ (11)
Interest credited to policyholders' account balances	6	—	—	6
Other comprehensive gains/(losses)	—	—	—	—
Total change in unrealized gains (losses)	\$ 6	\$ (3)	\$ (8)	\$ (5)

<sup>1</sup> Net investment income includes amortization of discount and premium on fixed maturities.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

**Non-recurring Fair Value Measurements**

Assets and liabilities measured at fair value on a non-recurring basis include other invested assets and other assets, which are described in detail below.

The following tables represent certain assets measured at estimated fair value during the years ended and still held at December 31, 2017 and 2016 (in millions):

	2017		
	Carrying Value Prior to Impairment	Estimated Fair Value After Impairment	Net Investment Losses
Other invested assets	\$ 88	\$ 83	\$ (3)
Other assets	127	102	(25)
Total assets	\$ 215	\$ 185	\$ (28)
	2016		
	Carrying Value Prior to Impairment	Estimated Fair Value After Impairment	Net Investment Losses
Other invested assets	\$ 68	\$ 54	\$ (13)
Other assets	217	73	(144)
Total assets	\$ 285	\$ 127	\$ (157)

Other invested assets consist of LP investments that do not have a readily determinable fair value and are recorded at cost.

Other assets consists of intangible assets that were impaired and written down to fair value. Refer to Note - Goodwill and Other Intangible Assets for further detail.

For a description of the Company's valuation processes and controls, refer to the "Determination of Fair Value" presented above.

**Fair Value of Other Financial Instruments**

Authoritative guidance related to financial instruments requires disclosure of fair value information of financial instruments whether or not fair value is recognized in the Consolidated Statements of Financial Position, for which it is practicable to estimate fair value.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

The carrying value and estimated fair value of financial instruments not otherwise disclosed in Notes 6, 12, 17, and 19 of Notes to the Consolidated Financial Statements at December 31, 2017 and 2016 are presented below (in millions):

	2017				
	Carrying Value	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Mortgage loans	\$ 29,736	\$ —	\$ —	\$ 30,390	\$ 30,390
Senior secured commercial loans	5,494	—	—	5,403	5,403
Cash	853	853	—	—	853
Loans of certain consolidated VIEs	111	—	—	122	122
Other invested assets	1,109	—	270	1,092	1,362
Other assets	2,036	—	2,035	—	2,035
<b>Liabilities</b>					
Policyholders' account balances - investment contracts	\$ 77,944	\$ —	\$ —	\$ 77,119	\$ 77,119
Debt	3,931	—	3,221	1,449	4,670
Collateral received on securities lending and repurchase agreements	1,353	—	1,353	—	1,353
Collateral received on derivative transactions	416	—	416	—	416
Separate account liabilities - investment contracts	8,784	—	8,784	—	8,784
Other liabilities	93	—	93	—	93
<b>2016</b>					
	Carrying Value	Estimated Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Assets</b>					
Mortgage loans	\$ 28,153	\$ —	\$ —	\$ 28,695	\$ 28,695
Senior secured commercial loans	5,524	—	—	5,632	5,632
Cash	783	745	38	—	783
Loans of certain consolidated VIEs	192	—	—	207	207
Other invested assets	876	—	283	817	1,100
Other assets	1,951	—	1,951	—	1,951
<b>Liabilities</b>					
Policyholders' account balances - investment contracts	\$ 73,106	\$ —	\$ —	\$ 72,282	\$ 72,282
Debt	4,071	—	2,995	1,590	4,585
Collateral received on securities lending and repurchase agreements	1,328	—	1,328	—	1,328
Collateral received on derivative transactions	798	—	798	—	798
Separate account liabilities - investment contracts	8,957	—	8,957	—	8,957
Other liabilities	86	—	86	—	86

***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, which take into account property type, LTV and remaining term of each loan. The spread is a significant component of the pricing inputs.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

***Senior secured commercial loans***

The estimated fair value for the loan portfolio is based on prevailing interest rate spreads in the market. Fair value was calculated by discounting future cash flows using prevailing interest rates on similar loans plus a spread adjustment. The spread is based on managements' judgment and assumptions and is significant to the valuation.

***Cash***

The Company believes that due to the short-term nature of cash, the carrying value approximates fair value.

***Loans of certain consolidated VIEs***

These assets are third party loans held in the collateralized structures discussed in Note 6 - Investments. The carrying value approximates fair value.

***Other invested assets***

These assets include collateral posted on derivative transactions, loan receivables, third party loans, and investments in LP/LLCs, including the Company's investments in qualified affordable housing projects. The fair value for derivative transactions and loan receivables approximates the carrying amount as they are short term in nature. Third party loans are fair valued by discounting estimated cash flows for each loan at the prevailing interest rates on similar loans plus spread adjustment. The spread is based on management's judgment and assumptions and is significant to the valuation. The fair value of LP/LLC approximates carrying amount. The fair value of investments in qualified affordable housing projects is based on a discounted cash flow calculation using a discount rate that is determined internally.

***Other assets***

Other assets primarily represents accrued investment income. The Company believes that due to the short-term nature of certain assets, the carrying value approximates fair value.

***Policyholders' account balances - investment contracts***

These contracts include dividend accumulations, continued interest accounts, supplementary contracts without life contingencies and other deposit type contracts where account value approximates fair value. For fixed deferred annuities, fair value is based upon a stochastic valuation using risk neutral assumptions for financial variables and company specific assumptions for lapses, mortality and expenses. The cash flows are discounted using the yield on the Company's medium term notes. For funding agreements backing medium term notes, fair values are based on available market prices for the notes. For other guaranteed investment contracts and annuities certain liabilities, fair values 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. For IPG contracts, which have no defined maturities, fair values are equal to the estimated amount payable on demand at the balance sheet date.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 9 – FAIR VALUE MEASUREMENTS (continued)**

***Debt***

The fair value for commercial paper approximates the carrying amount since these borrowings are generally short-term in nature with maturities less than three months. The fair value for non-recourse debt and other debts approximates the carrying amount. The fair value for surplus notes is based upon a quoted market price from a pricing service.

***Collateral received on securities lending, repurchase agreements and derivative transactions***

The carrying value of the liability approximates fair value since these borrowings are generally short-term in nature.

***Separate account liabilities - investment contracts***

For these contracts, fair value is deemed to be the contract's cash surrender value.

***Other liabilities***

Other liabilities primarily represents cash received on premiums paid in advance and held from policyholders. The Company believes that due to the short term nature of certain liabilities, the carrying value approximates fair value.

**NOTE 10 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES**

The components of Net investment income for the years ended December 31, 2017 and 2016 were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Fixed maturities	\$ 7,755	\$ 7,491
Equity securities	109	81
Mortgage loans	1,288	1,278
Policy loans	627	597
Limited partnerships and other invested assets	599	457
Senior secured commercial loans	508	500
Real estate	372	403
All other investment income	181	158
Gross investment income	<u>11,439</u>	<u>10,965</u>
Investment expenses	<u>(672)</u>	<u>(985)</u>
Net investment income	<u>\$ 10,767</u>	<u>\$ 9,980</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 10 – INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES (continued)**

For the years ended December 31, 2017 and 2016, Net investment gains were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Fixed maturities:		
Total OTTI losses	\$ (121)	\$ (280)
Portion of OTTI loss recognized in OCI	28	32
Net OTTI losses on fixed maturities recognized in earnings	(93)	(248)
All other gains	1,103	239
Fixed maturities, net	1,010	(9)
Equity securities	441	156
Real estate	34	—
Limited partnerships and other invested assets	387	238
Derivative instruments	(446)	236
Foreign exchange	105	12
All other gains	42	68
Net investment gains	<u>\$ 1,573</u>	<u>\$ 701</u>

The net investment gains (losses) on Securities at fair value (both fixed maturities and equity securities) amounted to \$1,269 million and \$184 million for the years ended December 31, 2017 and 2016, respectively. Of these gains, \$1,139 million and \$176 million were related to changes in fair value for the years ended December 31, 2017 and 2016, respectively.

Gains and losses for Securities at fair value are included in Net investment gains or losses.

Realized gains on sales of available-for-sale fixed maturities were \$305 million and \$267 million for the years ended December 31, 2017 and 2016, respectively; and realized losses were \$130 million and \$142 million, respectively. Realized gains on sales of available-for-sale equity securities were \$19 million and \$47 million for the years ended December 31, 2017 and 2016, respectively; and realized losses were \$1 million and \$3 million, respectively.

Losses from OTTI on equity securities (included in net investment gains or losses on equity securities above) were \$6 million year ended December 31, 2017 (there were none for the year ended December 31, 2016).

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 10 – INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES (continued)**

The following tables present the Company's gross unrealized losses and fair values for fixed maturities and equities securities aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2017 and 2016 (in millions):

	2017					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed Maturities</b>						
U.S. Treasury	\$ 482	\$ 4	\$ 437	\$ 25	\$ 919	\$ 29
U.S. government corporations & agencies	40	—	315	9	355	9
U.S. agency mortgage-backed and asset-backed securities	4,962	52	6,456	279	11,418	331
Foreign governments	927	28	49	1	976	29
U.S. corporate	10,723	104	7,449	255	18,172	359
Foreign corporate	2,643	49	1,972	71	4,615	120
Non-agency residential mortgage-backed securities	84	1	312	11	396	12
Non-agency commercial mortgage-backed securities	2,749	20	2,264	79	5,013	99
Non-agency asset-backed securities	3,163	20	1,558	35	4,721	55
Total fixed maturities	<u>25,773</u>	<u>278</u>	<u>20,812</u>	<u>765</u>	<u>46,585</u>	<u>1,043</u>
<b>Equities (Unaffiliated)</b>						
Preferred stock	2	1	—	—	2	1
Total equities	<u>2</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>2</u>	<u>1</u>
Total	<u>\$ 25,775</u>	<u>\$ 279</u>	<u>\$ 20,812</u>	<u>\$ 765</u>	<u>\$ 46,587</u>	<u>\$ 1,044</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 10 – INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES (continued)**

	2016					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed Maturities</b>						
U.S. Treasury	\$ 1,878	\$ 69	\$ —	\$ —	\$ 1,878	\$ 69
U.S. government corporations & agencies	332	17	—	—	332	17
U.S. agency mortgage-backed and asset-backed securities	9,539	394	368	24	9,907	418
Foreign governments	94	2	771	20	865	22
U.S. corporate	19,045	711	2,019	147	21,064	858
Foreign corporate	5,180	135	1,327	106	6,507	241
Non-agency residential mortgage-backed securities	232	6	620	32	852	38
Non-agency commercial mortgage-backed securities	4,152	122	531	16	4,683	138
Non-agency asset-backed securities	4,447	94	2,383	40	6,830	134
Total fixed maturities	<u>44,899</u>	<u>1,550</u>	<u>8,019</u>	<u>385</u>	<u>52,918</u>	<u>1,935</u>
<b>Equity Securities (Unaffiliated)</b>						
Common stock	—	—	1	—	1	—
Preferred stock	1	—	—	—	1	—
Total equities	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>2</u>	<u>—</u>
Total	<u>\$ 44,900</u>	<u>\$ 1,550</u>	<u>\$ 8,020</u>	<u>\$ 385</u>	<u>\$ 52,920</u>	<u>\$ 1,935</u>

At December 31, 2017, the unrealized loss amount consisted of approximately 6,529 different fixed maturities and 10 equity securities.

At December 31, 2017, unrealized losses on investment grade fixed maturities were \$922 million or 88% of the Company's total fixed maturities unrealized loss. Investment grade is defined as a security having a credit rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); or a comparable internal rating if an externally provided rating is not available. Unrealized losses on fixed maturities with a rating below investment grade represent \$122 million or 12% of the Company's total fixed maturities unrealized losses at December 31, 2017.

The amount of gross unrealized losses for fixed maturities where the fair value had declined by 20% or more of amortized cost totaled \$83 million. The amount of time that each of these securities has continuously been 20% or more below the amortized cost consist of \$13 million for 6 months or less, \$0 million for greater than 6 months through 12 months, and \$70 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 take an impairment when it did not have the intent to sell the security or it was more likely than not that it would not be required to sell the security before its anticipated recovery.

**Net Unrealized Investment Gains or Losses**

Net unrealized investment gains or losses on available-for-sale investments are included in the Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 10 – INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES (continued)**

adjustments for prior period net unrealized gains or losses that have been recognized as realized gains or losses during the current year and are included in Net investment gains or losses.

The components of Net unrealized investment gains or losses reported in AOCI at December 31, 2017 and 2016 were as follows (in millions):

	<b>2017</b>	<b>2016</b>
Fixed maturities - all other	\$ 8,825	\$ 7,044
Fixed maturities on which an OTTI loss has been recognized	166	136
Total fixed maturities	8,991	7,180
Equity securities	20	23
Derivatives designated as cash flow hedges	170	199
Other investments	16	8
Subtotal	9,197	7,410
Amounts recognized for:		
Deferred policy acquisition costs	(1,148)	(955)
Other sales inducements	(6)	(4)
Policyholders' account balances and Future policy benefits	(1,222)	(969)
Deferred taxes	(1,501)	(1,861)
Net unrealized gains on investments	<u>\$ 5,320</u>	<u>\$ 3,621</u>

The net unrealized gains or losses for the years ended December 31, 2017 and 2016, are presented separately for amounts related to fixed maturities on which an OTTI loss has been recognized, and all other net unrealized investment gains or losses, are as follows (in millions):

**Net unrealized investment gains and losses on fixed maturities on which an OTTI loss has been recognized**

	Net Unrealized Gains (Losses) On Investments	DAC	Sales Inducements	Policyholders' Account Balances and Future Policy Benefits	Deferred Tax Asset (Liability)	AOCI (Loss) Related To Net Unrealized Investment Gains (Losses)
<b>Balance, December 31, 2015</b>	56	(11)	—	—	(16)	29
Net investment gains (losses) on investments arising during the period	112	(1)	—	—	(39)	72
Reclassification adjustment for (gains) losses included in net income	(15)	—	—	—	5	(10)
Reclassification adjustment for OTTI losses excluded from net income <sup>(1)</sup>	(15)	—	—	—	5	(10)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	—	(15)	—	5	4	(6)
<b>Balance, December 31, 2016</b>	138	(27)	—	5	(41)	75
Change in accounting principle - reclass of stranded tax effects	—	—	—	—	15	15
Net investment gains (losses) on investments arising during the period	34	—	—	—	(2)	32
Reclassification adjustment for (gains) losses included in net income	(2)	—	—	—	1	(2)
Reclassification adjustment for OTTI losses excluded from net income <sup>(1)</sup>	(1)	—	—	—	—	(1)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	—	(1)	—	4	(1)	2
<b>Balance, December 31, 2017</b>	<u>\$ 169</u>	<u>\$ (28)</u>	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ (28)</u>	<u>\$ 121</u>

<sup>1</sup> Represents “transfers out” related to the portion of OTTI losses and/or changes in non-credit losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 10 – INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES (continued)**

**All other net unrealized investment gains and losses**

	Net Unrealized Gains (Losses) On Investments <sup>(1)</sup>	DAC	Sales Inducements	Policyholders' Account Balances and Future Policy Benefits	Deferred Tax Asset (Liability)	AOCI (Loss) Related To Net Unrealized Investment Gains (Losses)
<b>Balance, December 31, 2015</b>	\$ 6,893	\$ (894)	\$ (6)	\$ (902)	\$ (1,723)	\$ 3,368
Net investment gains (losses) on investments arising during the period	461	—	—	—	(162)	299
Reclassification adjustment for (gains) losses included in net income <sup>(2)</sup>	(97)	—	—	—	34	(63)
Reclassification adjustment for losses (gains) excluded in net income	15	—	—	—	(5)	10
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	—	(34)	2	—	11	(21)
Impact of net unrealized investment (gains) losses on policyholders' account balances and future policy benefits	—	—	—	(72)	25	(47)
<b>Balance, December 31, 2016</b>	<u>7,272</u>	<u>(928)</u>	<u>(4)</u>	<u>(974)</u>	<u>(1,820)</u>	<u>3,546</u>
Change in accounting principle - reclass of stranded tax effects	—	—	—	—	717	717
Net investment gains (losses) on investments arising during the period	1,765	—	—	—	(498)	1,267
Reclassification adjustment for (gains) losses included in net income	(9)	—	—	—	2	(7)
Reclassification adjustment for (gains) losses excluded in net income	—	—	—	—	—	—
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	—	(192)	(2)	2	54	(137)
Impact of net unrealized investment (gains) losses on policyholders' account balances and future policy benefits	—	—	—	(259)	73	(186)
<b>Balance, December 31, 2017</b>	<u>\$ 9,028</u>	<u>\$ (1,120)</u>	<u>\$ (6)</u>	<u>\$ (1,231)</u>	<u>\$ (1,472)</u>	<u>\$ 5,199</u>

<sup>1</sup> Includes cash flow hedges. Refer to Note 7 - Derivative Instruments and Risk Management for information on cash flow hedges.

<sup>2</sup> Represents “transfers out” related to the portion of OTTI losses and/or changes in non-credit losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

The following table provides a rollforward of the cumulative credit loss component of OTTI losses recognized in earnings for fixed maturities still held, for which a portion of the loss was recognized in AOCI (in millions):

	<u>2017</u>	<u>2016</u>
<b>Balance at beginning of year</b>	\$ 429	\$ 391
<b>Additions</b>		
Credit loss impairments recognized in the current period on securities previously not impaired	17	67
Additional credit loss impairments recognized in the current period on securities previously impaired	19	14
<b>Reductions</b>		
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or sold during the period	(108)	(43)
<b>Balance at end of year</b>	<u>\$ 357</u>	<u>\$ 429</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 11 - RELATED PARTY TRANSACTIONS**

NYL Investments, through its subsidiaries, is responsible for providing investment advisory and certain related administrative services to certain mutual funds it manages on behalf of the Company. As a result, NYL Investments, through its subsidiaries, earns investment management, accounting, administration, and service fees related to these funds, which aggregated \$1,111 million and \$1,143 million for the years ended December 31, 2017 and 2016, respectively, and are included in Management fees and other income.

**NOTE 12 - POLICYHOLDERS' LIABILITIES**

**Policyholders' Account Balances**

Policyholders' account balances at December 31, 2017 and 2016 were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Deferred annuities	\$ 45,841	\$ 43,241
Universal life contracts	28,949	27,610
Guaranteed investment contracts (including funding agreements)	26,278	25,405
Immediate participation guarantee contracts	6,369	5,284
Other <sup>(1)</sup>	4,786	4,791
Total policyholders' account balances	<u>\$ 112,223</u>	<u>\$ 106,331</u>

<sup>1</sup> Includes balances held at fair value of \$1,733 million and \$1,794 million at December 31, 2017 and 2016, respectively.

Guaranteed investment contracts issued by the Company include MTN liabilities at December 31, 2017 and 2016 of \$11,923 million and \$10,825 million, respectively.

The Company has entered into funding agreements with the FHLB of NY, whereby the Company has issued such funding agreements in exchange for cash. The proceeds are used for spread lending purposes. The funding agreements are included in guaranteed investment contracts in the above table.

When a funding agreement is issued, the Company is then required to post collateral in the form of eligible securities including mortgage-backed, government and agency debt instruments for each of the advances that are entered. Upon any event of default by the Company, the FHLB's recovery on the collateral is limited to the amount of the Company's liability to the FHLB.

NYLIAC is a member of the FHLB of Pittsburgh. At December 31, 2017 and 2016, the Company had no funding advances outstanding.

The following table represents FHLB balances at December 31, 2017 and 2016 (in millions):

	Member	Membership Stock <sup>(1)</sup>		Liability Funding Agreement		Fair Value of Collateral		Maximum Capacity Amount	
		2017	2016	2017	2016	2017	2016	2017	2016
FHLB - NY	NYLIC	\$ 156	\$ 143	\$ 2,630	\$ 2,279	\$ 3,421	\$ 3,026	\$ 8,159	\$ 7,885
FHLB - Pittsburgh	NYLIAC	\$ 26	\$ 24	\$ —	\$ —	\$ —	\$ —	\$ 4,903	\$ 4,550

<sup>1</sup> FHLB membership stock is recorded as equity securities, available for sale.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 12 - POLICYHOLDERS' LIABILITIES (continued)**

The following table highlights the interest rate assumptions utilized in calculating policyholders' account balances at December 31, 2017:

Products	Interest Rates
Deferred annuities	0.05% - 6.91%
Guaranteed investment contracts (including funding agreements)	0.31% - 6.42%
Universal life contracts	2.60% - 8.00%
Immediate participation guarantee contracts	3.50% - 6.22%

**Future Policy Benefits**

Future policy benefits at December 31, 2017 and 2016 were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Life insurance <sup>(1)</sup>	\$ 82,792	\$ 79,310
Individual and group payout annuities	30,554	27,867
Long term care	2,191	1,991
Group pensions	2,185	2,224
Other contract liabilities	1,180	1,162
Total future policy benefits	<u>\$ 118,901</u>	<u>\$ 112,554</u>

<sup>1</sup> Includes benefits held at fair value of \$8,326 million and \$8,603 million at December 31, 2017 and December 31, 2016, respectively.

Participating life insurance contracts represented 72% and 79% of total life insurance in-force for the years ended December 31, 2017 and 2016, respectively. Participating life insurance premiums also represented 87% and 88% of total life insurance premiums for the years ended December 31, 2017 and 2016, respectively.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 12 - POLICYHOLDERS' LIABILITIES (continued)**

The following table highlights the key assumptions utilized in the calculation of liabilities for future policy benefits at December 31, 2017:

<b>Products</b>	<b>Mortality</b>	<b>Interest Rates</b>	<b>Estimation Method</b>
Traditional permanent life insurance and endowment contracts	Rates guaranteed in calculating cash surrender values	2.00%-5.75%	Net level premium
Term life insurance policies	Based upon best estimates at time of policy issuance with provision for adverse deviations ("PAD")	0.25%-7.7%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD
Individual and group payout annuities	Based upon best estimates at time of policy issuance with PAD, or for individual contracts issued by the Company other than supplemental contracts, the 2017 best estimate mortality without PAD due to reserve unlocking	2.50% to 9.50%	Present value of expected future payments at a rate expected at issue with PAD, or for individual contracts issued by the Company other than supplemental contracts, at the then expected portfolio rates without PAD
Group pensions	1983 Group Annuity Mortality Tables for policies issued prior to 1993 and best estimates for policies issued thereafter	1.95% - 9.50%	Present value of expected future payments at rates expected at issue, or for policy issuance prior to 1993 at the then expected portfolio rates
Long term care	Based on best estimate at the time of policy issuance, 2014 Milliman Claim Cost Guidelines with adjustments based on experience study	3.70%-7.75%	Net Level Premium

**Guaranteed Minimum Benefits**

At December 31, 2017 and 2016, the Company had fixed and variable annuities with guarantees. The Company's variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive. For guarantees of amounts in the event of death, the net amount at risk is defined as the current GMDB in excess of the current account balance at the balance sheet date. For contracts with the EBB optional feature, the net amount at risk is defined as the additional benefit amount that is equal to a percentage of earnings in the contract, subject to certain maximums. For guarantees of accumulation balances, the net amount at risk is defined as the GMAB minus the current account balance at the balance sheet date. For guarantees of income, the net amount at risk is defined as the minimum account balance in excess of the current account balance needed to fund the GFIB or guaranteed lifetime income withdrawal benefits ("GLWB").

**Variable Annuity Contracts – GMDB, EBB, GMAB and GFIB**

The Company issues certain variable annuity contracts with a GMDB feature that guarantees either:

- a) Return of deposits: the benefit is the greater of current account value or premiums paid (adjusted for withdrawals).
- b) Ratchet: the benefit is the greatest of the current account value, premiums paid (adjusted for withdrawals), or the highest account value on any contractually specified anniversary up to contractually specified ages (adjusted for withdrawals).

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.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 12 - POLICYHOLDERS' LIABILITIES (continued)**

The Company issues certain variable annuity contracts with a GMAB feature that guarantees a minimum contract value at the end of the guarantee period equal to 100% or 150% of initial premium (adjusted for withdrawals), depending on the length of the guarantee period selected at issue. The minimum contract value can be reset after issue, and in such case, is set equal to the account value at the time of reset and the guaranteed period starts over. Older contracts must be surrendered in order to receive the minimum contract value. New policies may pay out the higher of the GMDB and GMAB amount upon death, depending on the age of the contract and the guaranteed period selected.

The Company issues variable annuity contracts with a GFIB feature. This feature provides a minimum fixed annuity payment guarantee that will start on a date chosen by the policyholder.

The following tables provide the account value, net amount at risk and average attained age of contract holders at December 31, 2017 and 2016 for GMDBs, GMABs, EBBs, and GFIBs (\$ in millions):

	<b>2017</b>					
	<b>Return of Net Deposits</b>			<b>Ratchet</b>		<b>Income</b>
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	Additional Death Benefits (EBB)	In the Event of Death (GMDB)	In the Event of Death (GMAB)	Accumulation at Specified Date (GFIB)
Account value	\$ 21,353	\$ 6,537	\$ 54	\$ 9,913	\$ 1,524	\$ 220
Net amount at risk	\$ 19	\$ 59	\$ 7	\$ 93	\$ 10	\$ —
Average attained age of contract holders	59	59	69	65	62	60

	<b>2016</b>					
	<b>Return of Net Deposits</b>			<b>Ratchet</b>		<b>Income</b>
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	Additional Death Benefits (EBB)	In the Event of Death (GMDB)	In the Event of Death (GMAB)	Accumulation at Specified Date (GFIB)
Account value	\$ 18,270	\$ 5,839	\$ 56	\$ 9,874	\$ 1,520	\$ 226
Net amount at risk	\$ 48	\$ 84	\$ 6	\$ 172	\$ 19	\$ 1
Average attained age of contract holders	55	58	68	61	62	60

The following summarizes the general account liabilities for guarantees on variable contracts included in liabilities for Future policy benefits for GMDB, EBB, and GFIB, and liabilities for Policyholders' account balances for GMAB (in millions):

	<b>GMDB</b>	<b>GMAB</b>	<b>EBB</b>	<b>GFIB</b>	<b>Total</b>
<b>Balance, December 31, 2015</b>	\$ 74	\$ 155	\$ 2	\$ 6	\$ 237
Incurred guarantee benefits	(21)	26	—	(2)	3
Paid guarantee benefits	(7)	(1)	—	—	(8)
<b>Balance, December 31, 2016</b>	46	180	2	4	232
Incurred guarantee benefits	3	(143)	—	(1)	(141)
Paid guarantee benefits	(3)	(4)	—	—	(7)
<b>Balance, December 31, 2017</b>	\$ 46	\$ 33	\$ 2	\$ 3	\$ 84

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 12 - POLICYHOLDERS' LIABILITIES (continued)**

For GMABs, incurred guaranteed minimum benefits incorporate all changes in fair value other than amounts resulting from paid guarantee benefits. GMABs are considered to be embedded derivatives and are recognized at fair value through interest credited to Policyholders' account balances (refer to Note 9 - Fair Value Measurements).

The GMDB and EBB liabilities are determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments in accordance with applicable guidance. The Company regularly evaluates assumptions and adjusts the additional liability, with a related charge or credit to increase in liabilities for Future policy benefits, if actual experience or other evidence suggests that earlier assumptions should be revised.

The GFIB liability is determined each period end by estimating the expected guaranteed minimum income benefit amounts less the benefit amounts funded by income benefit purchases, and recognizing the excess ratably over the accumulation period based on total expected assessments in accordance with applicable guidance. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to increase in liabilities for Future policy benefits, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following table presents the aggregate fair value of assets at December 31, 2017 and 2016, by major investment fund options (including the general and separate account fund options), held by annuity products that are subject to GMDB, GMAB, EBB and GFIB benefits and guarantees. Since variable contracts with GMDB guarantees may also offer GMAB, GFIB and EBB guarantees in each contract, the GMDB, GMAB, EBB and GFIB amounts listed are not mutually exclusive (in millions):

	<b>2017</b>			
	<b>GMDB</b>	<b>GMAB</b>	<b>EBB</b>	<b>GFIB</b>
Separate account				
Equity	\$ 16,157	\$ 4,440	\$ 30	\$ 133
Fixed income	6,651	2,074	12	64
Balanced	4,861	1,324	8	23
Total separate account	27,669	7,838	50	220
General account	3,597	223	4	—
Total	<u>\$ 31,266</u>	<u>\$ 8,061</u>	<u>\$ 54</u>	<u>\$ 220</u>
	<b>2016</b>			
	<b>GMDB</b>	<b>GMAB</b>	<b>EBB</b>	<b>GFIB</b>
Separate account				
Equity	\$ 13,722	\$ 3,923	\$ 30	\$ 134
Fixed income	6,222	1,926	14	70
Balanced	4,379	1,247	8	22
Total separate account	24,323	7,096	52	226
General account	3,821	263	4	—
Total	<u>\$ 28,144</u>	<u>\$ 7,359</u>	<u>\$ 56</u>	<u>\$ 226</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 12 - POLICYHOLDERS' LIABILITIES (continued)**

**Fixed Annuity Contracts – GLWB**

The Company issues fixed annuity contracts with a GLWB feature. The benefit must be elected at the time of contract issuance, and provides for a percentage of the contract holder's benefit base, subject to certain restrictions, to be available for withdrawal for life as early as age 59 1/2. This benefit base grows for up to 10 years or until lifetime income payments commence, whichever comes first.

The GLWB liability is determined each period end by estimating the expected payments after the account balance is depleted and recognizing the excess ratably over the accumulation period based on total expected assessments in accordance with applicable guidance. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to increase in liabilities for Future policy benefits, if actual experience or other evidence suggests that earlier assumptions should be revised.

The GLWB liability was \$54 million and \$17 million at December 31, 2017 and 2016 respectively.

**Additional Liability for Individual Life Products**

Certain individual life products require additional liabilities for contracts with excess insurance benefit features. These excess insurance benefit features are generally those that result in profits in early years and losses in subsequent years. For the Company's individual life contracts, this requirement primarily affects universal life policies with secondary guarantees. For these policies, we define excess insurance benefits as death benefits paid in excess of account balance released on death when the policy is either being held in-force by the presence of a no lapse guarantee or when an amount in excess of the account balance results from a GMDB.

Generally, the Company has separately defined an excess insurance benefit to exist when expected mortality exceeds all assessments. This insurance benefit is in addition to the base mortality feature, which the Company defines as expected mortality not in excess of assessments. The liability for excess insurance benefit features reflected in the general account and included in liabilities for Future policy benefits was \$197 million and \$162 million at December 31, 2017 and 2016, respectively.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 13 - DEFERRED POLICY ACQUISITION COSTS AND SALES INDUCEMENTS**

**Deferred Policy Acquisition Costs**

The following is a rollforward of DAC for the years ended December 31, 2017 and 2016 (in millions):

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 6,971	\$ 6,856
Current year additions	1,418	1,311
Amortization - current year	(1,115)	(1,084)
Amortization - impact of assumption and experience unlocking	(117)	(18)
Balance at end of year before related adjustments	<u>7,157</u>	<u>7,065</u>
Adjustment for changes in unrealized net investment gains	(194)	(49)
Cumulative translation adjustment	22	(45)
Balance at end of year	<u>\$ 6,985</u>	<u>\$ 6,971</u>

**Sales Inducements**

The following is a rollforward of deferred sales inducements included in Other assets in the accompanying Consolidated Statements of Financial Position for the years ended December 31, 2017 and 2016 (in millions):

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 670	\$ 663
Current year additions	64	76
Amortization - current year	(110)	(78)
Amortization - impact of assumption and experience unlocking	5	7
Balance at end of year before related adjustments	<u>629</u>	<u>668</u>
Adjustment for changes in unrealized net investment gains	2	2
Balance at end of year	<u>\$ 631</u>	<u>\$ 670</u>

**NOTE 14 – 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. The Company also participates in assumed reinsurance with third parties in acquiring additional business. Both assumed and ceded reinsurance transactions are discussed in further detail below.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 14 - REINSURANCE (continued)**

Generally, the Company does not have any individual life or group ceded reinsurance agreements that do not transfer risk or contain risk limiting features. The effects of reinsurance on the Consolidated Statements of Operations for the years ended December 31, 2017 and 2016 were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Direct	\$ 14,600	\$ 13,972
Assumed	811	763
Ceded	<u>(662)</u>	<u>(611)</u>
Premiums	<u>\$ 14,749</u>	<u>\$ 14,124</u>
Fees - universal life and annuity policies ceded	<u>\$ (440)</u>	<u>\$ (420)</u>
Direct	\$ 9,745	\$ 9,237
Assumed	1,261	1,214
Ceded	<u>(1,356)</u>	<u>(1,233)</u>
Policyholders' benefits	<u>\$ 9,650</u>	<u>\$ 9,218</u>
Direct	\$ 6,138	\$ 5,718
Assumed	(277)	(334)
Ceded	<u>114</u>	<u>262</u>
Increase in liabilities for future policy benefits	<u>\$ 5,975</u>	<u>\$ 5,646</u>
Direct	\$ 1,870	\$ 1,803
Assumed	142	159
Ceded	<u>(62)</u>	<u>(32)</u>
Dividends to policyholders	<u>\$ 1,950</u>	<u>\$ 1,930</u>

The effects of reinsurance on the Consolidated Statements of Financial Position for the years ended December 31, 2017 and 2016 were as follows (in millions):

	<u>2017</u>	<u>2016</u>
Reinsurance recoverable <sup>(1)</sup>	\$ 5,997	\$ 5,733
Policyholder's account balances assumed	\$ 1,216	\$ 1,284
Future policy benefits assumed	\$ 8,326	\$ 8,603
Reinsurance payable <sup>(1)</sup>	\$ 4,446	\$ 4,538

<sup>1</sup> Reinsurance recoverable is reported in Other assets and Reinsurance payable is recorded in Other liabilities.

**Assumed Reinsurance**

The Company assumes, on a coinsurance basis, 100% of the obligations and liabilities of John Hancock Life Insurance Company (U.S.A.) and one of its affiliates ("John Hancock") closed block participating whole life insurance policies. The Company retrocedes 40% of those obligations and liabilities to John Hancock on a funds-withheld arrangement, resulting in a net 60% quota share reinsurance.

The assets received from this transaction are pledged as collateral and are contractually restricted; the majority of which are permanently restricted and must be passed back to the reinsured policyholders as a future benefit or dividend payment. The Company elected the fair value option for the reinsurance obligations and liabilities

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 14 - REINSURANCE (continued)**

and the permanently restricted assets because it is a better match with the economics of the transaction since the permanently restricted assets inure to the reinsured policies.

The contractually restricted assets within the Consolidated Statements of Financial Position at December 31, 2017 and 2016, were as follows (in millions)

	2017	2016
Fixed maturities		
Available for sale, at fair value	\$ 1,585	\$ 1,604
Securities at fair value	6,543	6,679
Mortgage loans, net of allowances	1,254	1,329
Policy loans	1,196	1,252
Other investments	(2)	1
Total investments	10,576	10,865
Cash and cash equivalents	87	90
Investment income due and accrued	121	123
Other assets	(22)	5
Total contractually restricted assets <sup>(1)</sup>	\$ 10,762	\$ 11,083

<sup>1</sup> Includes \$9,198 million and \$9,441 million of permanently restricted assets and \$1,627 million and \$1,642 million in case the permanently restricted assets are not sufficient to meet policyholder liabilities as of December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Company recorded liabilities for Future policy benefits of \$8,326 million and \$8,603 million, respectively, and other liabilities of \$1,632 million and \$1,685 million, respectively. At December 31, 2017 and 2016, for the portion retro ceded, the Company recorded amounts recoverable of \$3,700 million and \$3,824 million respectively, other assets of \$35 million and \$5 million, respectively, and a funds withheld-liability of \$4,330 million and \$4,433 million, respectively. Refer to Note 9 - Fair Value Measurement, for a discussion on the valuation of these items.

The insurance related revenue, primarily premiums, and net investment income from the permanently restricted assets, accrue solely to the benefit of those reinsured policyholders and increase the liabilities for future policy benefits with zero impact to the Net income attributable to New York Life in the Consolidated Statements of Operations.

**Ceded Reinsurance**

Currently, the Company cedes the mortality risk on new business for term and employees' whole life insurance policies on a quota-share yearly renewable term basis. Most of the ceded reinsurance business is on an automatic basis. The quota share currently ceded generally ranges from 50% to 80% with a minimum size policy ceded of either \$1 million or \$2 million for term and no minimum size for employees' whole life. Cases in excess of the Company's retention and certain substandard cases are ceded on a facultative reinsurance basis. The majority of the Company's facultative reinsurance is for substandard cases in which it typically cedes 90%.

The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable in order to minimize its exposure to loss from reinsurer insolvencies. When necessary, an allowance is recorded for reinsurance the Company cannot collect.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 14 - REINSURANCE (continued)**

The Company no longer writes individual medical and disability income coverage. The disability income policies are reinsured 100% with Unum Group on a modified coinsurance basis. The individual medical and Medicare Supplement coverage are reinsured 40% and 90%, respectively, with Mutual of Omaha.

Prior to July 1, 2002, NYLIAC 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 were transferred to New York Life Insurance Taiwan Corporation ("Taiwan Corporation"), an indirect subsidiary of New York Life that was sold to Yuanta Financials Holding Co., Ltd. ("Yuanta") on December 31, 2013. Under the terms of the sale agreement, Yuanta agreed to satisfy in full, or 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. The Company accounts for the policies issued prior to July 2002 as 100% coinsured, and included \$1,512 million and \$1,320 million of policyholder liabilities associated with those policies at December 31, 2017 and 2016, respectively, as well as a reinsurance recoverable asset from Taiwan Corporation/Yuanta of an equal amount in its Consolidated Statement of Financial Position.

The Company ceded 17% of its total life insurance in-force at December 31, 2017 and 2016, respectively.

Four reinsurance companies account for 73% and 75% of the life insurance in-force ceded at December 31, 2017 and 2016, respectively.

**NOTE 15 - BENEFIT PLANS**

**Defined Benefit Plans**

New York Life maintains various tax-qualified and non-qualified defined benefit pension plans covering eligible U.S. employees and agents. The tax-qualified plan for employees includes both a traditional formula and a cash balance formula, with benefits earned under either or both as determined by age and date of hire. Under the traditional formula, benefits are based on final average earnings and length of service. The cash balance formula credits employees' accounts with a percentage of eligible pay each year based on years of service, along with annual interest credits at rates based on IRS guidelines. The tax-qualified plan for agents is based on length of service and earnings during an agent's career. The non-qualified pension plans provide supplemental benefits in excess of the maximum benefits applicable to a tax-qualified plan.

The assets of each plan are maintained in a separate trust. The tax-qualified plans are funded solely by New York Life contributions. In 2017, the New York Life made a contribution into the Pension Plan and the Retirement Plan of \$580 million and \$220 million, respectively. The assets of each plan are maintained in a separate trust.

New York Life has established separate irrevocable grantor trusts covering certain of the non-qualified arrangements to help protect non-qualified payments thereunder in the event of a change in control of New York Life. The grantor trusts are not subject to the Employee Retirement Income Security Act of 1974 ("ERISA").

**Other Postretirement Benefits**

New York Life provides certain health care and life benefits for eligible retired employees and agents (and their eligible dependents). Employees are eligible for retiree health and life benefits if they are at least age 55 with 10 or more years of service with New York Life, provided that they are enrolled for active health care coverage on the date they terminate employment. Agents are generally eligible for retiree health and life benefits if they meet certain age and service criteria on the date they terminate service.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

Employees and agents who retired prior to January 1, 1993 and agents who were active on December 31, 1992 and met certain age or service criteria on that date do not make contributions toward retiree health care coverage. All other eligible employees and agents may be required to contribute towards retiree health care coverage. New York Life pays the entire life insurance costs for retired employees and agents.

New York Life has established two separate Voluntary Employees Beneficiary Association ("VEBA") Trusts, the Employees' Life and Health Benefit Trust ("Employee VEBA") and the Agents' Life and Health Benefit Trust ("Agent VEBA"). The Employee VEBA is currently exclusively used to fund a portion of the postretirement health and life benefits for retired employees, and the Agent VEBA is currently exclusively used to fund a portion of the postretirement health and life benefits for retired agents. In addition, the tax-qualified pension plan for agents includes a medical-benefit component to fund a portion of the postretirement obligations for retired agents and their dependents in accordance with Internal Revenue Code (IRC) Section 401(h). New York Life pays the remaining balance of these costs.

**Postemployment Benefits and Compensated Absences**

New York Life provides certain benefits to eligible employees during employment for paid absences, and to eligible employees and agents after termination of service. These benefits include, but are not limited to, salary continuation during medical and pregnancy leaves, short-term disability-related benefits, and continuation of health care benefits.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

The following tables are for financial reporting purposes only and do not reflect the status of the assets of each of the plans under applicable law (in millions):

	<b>Pension</b>		<b>Other</b>	
	<b>Plan Benefits</b>		<b>Postretirement Plan</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 7,517	\$ 7,170	\$ 1,439	\$ 1,478
Service cost	148	147	23	25
Interest cost	271	268	54	58
Contributions by plan participants	—	—	12	9
Actuarial losses (gains)	589	265	160	(62)
Benefits paid	(356)	(333)	(61)	(70)
One-time contractual termination benefits	—	—	—	1
Benefit obligation at end of year	<u>\$ 8,169</u>	<u>\$ 7,517</u>	<u>\$ 1,627</u>	<u>\$ 1,439</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 5,715	\$ 5,694	\$ 612	\$ 582
Actual return on plan assets	764	308	95	38
Contributions by employer	850	46	43	53
Contributions by plan participants	—	—	12	9
Benefits paid	(356)	(333)	(61)	(70)
Fair value of plan assets at end of year	<u>\$ 6,973</u>	<u>\$ 5,715</u>	<u>\$ 701</u>	<u>\$ 612</u>
Funded status <sup>1</sup>	<u>\$ (1,196)</u>	<u>\$ (1,802)</u>	<u>\$ (926)</u>	<u>\$ (827)</u>
<b>Net amount recognized in the Consolidated Statements of Financial Position</b>				
Current liabilities	\$ (45)	\$ (44)	\$ —	\$ —
Noncurrent liabilities	(1,151)	(1,758)	(926)	(827)
Net amount recognized <sup>1</sup>	<u>\$ (1,196)</u>	<u>\$ (1,802)</u>	<u>\$ (926)</u>	<u>\$ (827)</u>
<b>Amounts recognized in AOCI</b>				
Net actuarial loss	\$ 2,804	\$ 2,713	\$ 370	\$ 273
Prior service credit	(40)	(46)	(205)	(237)
Total	<u>\$ 2,764</u>	<u>\$ 2,667</u>	<u>\$ 165</u>	<u>\$ 36</u>
Accumulated benefit obligation for all defined benefit pension plans at December 31	<u>\$ 7,714</u>	<u>\$ 7,107</u>		

<sup>1</sup>The funded status of the plans is recognized in Other liabilities in the Consolidated Statements of Financial Position.

Information for pension plans with a PBO in excess of plan assets at December 31 2017 and 2016 was as follows (in millions):

	<b>Pension</b>	
	<b>Plan Benefits</b>	
	<b>2017</b>	<b>2016</b>
PBO	\$ 8,169	\$ 7,517
Fair value of assets	\$ 6,973	\$ 5,715

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

Information for pension plans with an APBO in excess of plan assets at December 31, 2017 and 2016 was as follows (in millions):

	<b>Pension</b>			
	<b>Plan Benefits</b>			
	<b>2017</b>		<b>2016</b>	
APBO	\$	7,714	\$	7,107
Fair value of assets	\$	6,973	\$	5,715

The components of net periodic benefit cost and other changes recognized in OCI for the year ended December 31, 2017 and 2016 were as follows (in millions):

	<b>Pension</b>		<b>Other Postretirement</b>	
	<b>Plan Benefits</b>		<b>Plan Benefits</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Service cost	\$ 148	\$ 147	\$ 23	\$ 25
Interest cost	271	268	54	58
Expected return on plan assets	(415)	(415)	(42)	(41)
Amortization of net actuarial loss	149	153	10	15
Amortization of prior service credit	(6)	(5)	(32)	(37)
Net periodic benefit cost	<u>\$ 147</u>	<u>\$ 148</u>	<u>\$ 13</u>	<u>\$ 20</u>
One-time contractual termination benefits	—	—	—	1
Total net periodic benefit cost	<u>\$ 147</u>	<u>\$ 148</u>	<u>\$ 13</u>	<u>\$ 21</u>
<b>Other changes in plan assets and benefit obligation recognized in OCI</b>				
Net actuarial loss (gain)	\$ 240	\$ 372	\$ 106	\$ (58)
Amortization of net actuarial loss	(149)	(153)	(10)	(15)
Amortization of prior service credit (cost)	6	5	32	37
Total recognized in OCI	<u>\$ 97</u>	<u>\$ 224</u>	<u>\$ 128</u>	<u>\$ (36)</u>
Total recognized in net periodic benefit cost and OCI	<u>\$ 244</u>	<u>\$ 372</u>	<u>\$ 142</u>	<u>\$ (15)</u>

The estimated net actuarial (gain) loss and prior service cost (credit) for the pension plans that will be amortized from AOCI into net periodic benefit cost over the next year are \$183 million and \$(6) million, respectively. The estimated net actuarial (gain) loss and prior service cost (credit) for the postretirement plans that will be amortized from AOCI into net periodic cost over the next year are \$16 million and \$(32) million, respectively.

**Assumptions**

Benefit obligations are reported based on certain actuarial assumptions, which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions could occur in the near term and would be material to the financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

Weighted-average assumptions used to determine benefit obligations at December 31, 2017 and 2016 were as follows:

	<b>Pension</b>		<b>Other</b>	
	<b>Plan Benefits</b>		<b>Postretirement</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Discount rate	3.76%	4.37%	3.82%	4.51%
Rate of compensation increase:				
Employees	4.90%	5.10%	4.90%	5.10%
Agents	6.00%	3.75%	6.00%	3.75%

Weighted-average assumptions used to determine net periodic benefit cost at December 31, 2017 and 2016 were as follows:

	<b>Pension</b>		<b>Other</b>	
	<b>Plan Benefits</b>		<b>Postretirement</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Discount rate for benefit obligations	4.37%	4.62%	4.51%	4.77%
Service cost discount rate	4.68%	4.92%	4.88%	5.10%
Effective rate of interest on benefit obligations	3.69%	3.83%	3.85%	3.99%
Expected long-term return on plan assets	7.25%	7.50%	6.75%	7.00%
Rate of compensation increase:				
Employees	5.10%	5.10%	5.10%	5.10%
Agents	3.75%	3.75%	3.75%	3.75%

New York Life uses a full yield curve approach to determine its U.S. pension and other postretirement benefit obligations as well as the service and interest cost components of net periodic benefit cost.

The discount rates used are based on hypothetical AA yield curves represented by a series of spot discount rates from half a year to 99 years. The spot rate curves are derived from a direct calculation of the implied forward curve, based on the included bond cash flows. Each bond issue underlying the yield curve is required to be non-callable, with a rating of AA, when averaging all available ratings by Moody's Investor Services, Standard & Poor's and Fitch. Additionally, each bond must have at least \$300 million par outstanding to ensure it is sufficiently marketable. Finally, the outlier bonds (i.e. those whose yields to maturity significantly deviate from the average yield in each maturity grouping) are removed. The yields are used to discount future pension and other postretirement plan cash flows at an interest rate specifically applicable to the timing of each respective cash flow. For disclosure purposes, the sum of these discounted cash flows are totaled into a single present value and an equivalent weighted-average discount rate is calculated by imputing the singular interest rate that equates the total present value of the stream of future cash flows.

New York Life utilizes a full yield curve approach in the calculation of the service and interest cost components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their relevant underlying projected cash flows. The current approach provides a more precise measurement of

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

service and interest cost by improving the correlation between projected benefit cash flows and their corresponding spot rates.

The expected long-term return on assets for the tax-qualified pension plans and the VEBA Trusts is based on (1) an evaluation of the historical behavior of the broad financial markets, (2) the plan’s target asset allocation, and (3) the future expectations for returns for each asset class, modified by input from the plans' investment consultant based on the current economic and financial market conditions.

The assumed health care cost trend rates used in measuring the APBO at December 31, 2017 and 2016 were as follows:

	2017		2016	
	Before 65	Age 65 and older	Before 65	Age 65 and older
Following year	8.00%	9.25%	6.50%	7.25%
Ultimate rate to which cost increase is assumed to decline	4.75%	4.75%	5.00%	5.00%
Year in which the ultimate trend is received	2028	2028	2025	2026

For dental plans, the annual rate of increase in the per capita cost of covered health care benefits is assumed to be 5.00% per year for all participants.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point increase and decrease in assumed health care cost trend rates at December 31, 2017 would have the following effects (in millions):

	2017	
	One Percent Increase	One Percent Decrease
Effect on total of service and interest cost components	\$ 6	\$ (5)
Effect on APBO	\$ 117	\$ (95)

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

**Plan Assets**

Each tax-qualified pension plan currently invests in two group annuity contracts which are held in separate trusts: one contract is an IPG contract relating to New York Life’s general account (“GA Contract”), and the other contract relates to New York Life's pooled separate accounts (“SA Contract”). New York Life is the issuer of the GA and SA Contracts. In addition, certain assets are directly invested in third-party real estate investment funds and third - party money market mutual funds. Total tax-qualified plan assets at December 31, 2017 and 2016 are as follows (in millions):

	<b>Tax-qualified pension plans</b>	
	<b>2017</b>	<b>2016</b>
GA Contracts <sup>1</sup>	\$ 2,713	\$ 1,803
SA Contracts <sup>2</sup>	3,764	3,550
Third-party real estate investment funds	390	362
Third-party money market mutual funds	106	—
Total plan assets	<u>\$ 6,867</u>	<u>\$ 5,715</u>

<sup>1</sup> The GA Contracts are included in New York Life’s assets and Policyholders’ account balances in the Consolidated Statements of Financial Position.

<sup>2</sup> The SA Contracts are included in New York Life’s separate account assets and liabilities in the Consolidated Statements of Financial Position.

Under the GA Contract, NYL Investors acts as the investment manager of the IPG contract. The GA Contract provides for the payment of an annual administrative charge based on a percentage of the assets maintained in the fixed account under the contract. Under the SA Contract, certain registered investment advisory subsidiaries of NYL Investments act as investment managers for the pooled separate accounts. The SA Contract provides for the payment of separate annual fees for the management of each separate account.

The assets of each of the VEBA Trusts are invested in MainStay and Vanguard mutual funds, trust owned life insurance (“TOLI”) and cash and cash equivalents. Total assets of the other postretirement plans (including VEBA Trusts and 401(h) component) at December 31, 2017 and 2016 are as follows (in millions):

	<b>Other postretirement plans</b>	
	<b>2017</b>	<b>2016</b>
IPG Contract (401(h) component) <sup>1</sup>	\$ 29	\$ 28
Mainstay International Equity	62	51
Vanguard Funds	186	158
TOLI policies <sup>2</sup>	414	366
Cash and cash equivalents	10	9
Total Plan assets	<u>\$ 701</u>	<u>\$ 612</u>

<sup>1</sup> Included in Company’s assets and policyholders’ account balance in the Consolidated Statements of Financial Position.

<sup>2</sup> Includes \$154 million and \$151 million in Company’s assets and policyholders’ account balance in the Consolidated Statements of Financial Position for 2017 and 2016, respectively, and \$260 million and \$215 million in the Company’s Separate Account assets and liabilities in the Consolidated Statements of Financial Position for 2017 and 2016, respectively.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

NYLIM serves as investment manager of the MainStay Mutual Funds. The TOLI policies are corporate sponsored universal life (“CSUL”) and corporate sponsored variable universal life (“CSVUL”) policies issued by NYLIAC. CSVUL policy premiums are invested in certain insurance dedicated funds offered in connection with variable products for which NYLIM serves as investment advisor.

The investment objectives for the tax-qualified pension plans and VEBA Trusts are: (1) to maintain sufficient income and liquidity to fund benefit payments; (2) to preserve the capital value of the plans and trusts; (3) to increase the capital value of the plans and trusts; and (4) to earn a long-term rate of return, which meets or exceeds the plans’ and trusts’ assumed actuarial rates of return. Under the investment policies for the tax-qualified pension plans, the plans’ assets are to be invested primarily in a balanced and diversified mix of high quality equities, fixed income securities, group annuity contracts, private equity investments, real estate investments, hedge fund investments, cash equivalents, and such other assets as may be appropriate. Under the investment policies for the VEBA Trusts, the assets of the trusts are to be invested primarily in insurance contracts (variable and/or fixed) and/or mutual funds, which in turn, invest in a balanced and diversified mix of high quality equities, fixed income securities, cash equivalents, and such other assets as may be appropriate. The Investment Committees of the Board of Trustees (the “Committees”) monitor and review investment performance to ensure assets are meeting investment objectives.

The Committees have established a broad investment strategy targeting an asset allocation of 60% equity securities and 40% fixed income for both the tax-qualified pension plans, and 70% equity securities and 30% fixed income for the VEBA Trusts. Diversifying each asset class by style and type further enhances this allocation. In developing this asset allocation strategy, the Committees took into account, among other factors, the information provided to them by the plans’ actuary, information relating to the historical investment returns of each asset class, the correlations of those returns, and input from the plans’ investment consultant. The Committees regularly review the plans’ asset allocations versus the targets and make adjustments as appropriate.

The weighted-average asset allocation for the tax-qualified pension plans at December 31, 2017 and 2016 and target allocations by asset category, were as follows:

<b>Asset Category</b>	<b>Target Allocation Percentage</b>	<b>Percentage of Plan Assets</b>	
	<b>2017 and 2016</b>	<b>2017</b>	<b>2016</b>
Fixed income securities	40%	41%	36%
Equity securities	60%	59%	64%
Total	100%	100%	100%

The weighted-average asset allocation for the VEBA Trusts at December 31, 2017 and 2016, and target allocations by asset category, were as follows:

<b>Asset Category</b>	<b>Target Allocation Percentage</b>	<b>Percentage of VEBA Trust Assets</b>	
	<b>2017 and 2016</b>	<b>2017</b>	<b>2016</b>
Fixed income securities	30%	27%	30%
Equity securities	70%	73%	70%
Total	100%	100%	100%

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

The pooled separate accounts under the SA Contract, the third-party real estate investment funds, and the third-party money market mutual funds for each of the tax-qualified pension plans invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The fair values (refer to Note 9 - Fair Value Measurements for description of levels) of the tax-qualified pension plans' assets at December 31, 2017 and 2016 were as follows (in millions):

Asset Category	2017				Total
	Level 1	Level 2	Level 3	NAV as a Practical Expedient	
Fixed income securities:					
IPG contract	\$ —	\$ —	\$ 2,713	\$ —	\$ 2,713
Absolute return hedge fund separate accounts	—	—	—	52	52
Money market mutual funds	106	—	—	—	106
Equity type securities:					
Long/short equity hedge fund separate accounts	—	—	—	342	342
Private equity separate accounts	—	—	—	553	553
Other equity separate accounts	—	—	—	2,497	2,497
Real estate investment funds	—	—	—	390	390
REIT equity separate account	—	—	—	320	320
Total assets accounted for at fair value	\$ 106	\$ —	\$ 2,713	\$ 4,154	\$ 6,973

  

Asset Category	2016				Total
	Level 1	Level 2	Level 3	NAV as a Practical Expedient	
Fixed income securities:					
IPG contract	\$ —	\$ —	\$ 1,803	\$ —	\$ 1,803
Absolute return hedge fund separate accounts	—	—	—	233	233
Equity type securities:					
Long/short equity hedge fund separate accounts	—	—	—	314	314
Private equity separate accounts	—	—	—	475	475
Other equity separate accounts	—	—	—	2,200	2,200
Real estate investment funds	—	—	—	362	362
REIT equity separate account	—	—	—	328	328
Total assets accounted for at fair value	\$ —	\$ —	\$ 1,803	\$ 3,912	\$ 5,715

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

The table below presents a reconciliation of the IPG contract for the years ended December 31, 2017 and 2016 (in millions):

	<u>2017</u>	<u>2016</u>
Fair value, beginning of year	\$ 1,803	\$ 1,838
Return on plan assets:		
Relating to assets still held at the reporting date	91	82
Purchases	1,556	296
Sales	(737)	(413)
Fair value, end of year	<u>\$ 2,713</u>	<u>\$ 1,803</u>

The fair values of other postretirement benefit plan assets at December 31, 2017 and 2016 were as follows (in millions):

Asset Category	<u>2017</u>				
	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Fixed income securities:					
CSUL Policies	\$ —	\$ —	\$ 154	\$ —	\$ 154
IPG contract	—	—	29	—	29
Vanguard Bond Market Index Fund	18	—	—	—	18
Cash, cash equivalents, and short-terms	1	9	—	—	10
Equity securities:					
Vanguard Institutional Index Fund	186	—	—	—	186
MainStay International Equity Fund	44	—	—	—	44
CSVUL - MainStay VP Indexed Equity	—	—	222	—	222
CSVUL - MainStay VP International Equity	—	—	38	—	38
Total assets accounted for at fair value	<u>\$ 249</u>	<u>\$ 9</u>	<u>\$ 443</u>	<u>\$ —</u>	<u>\$ 701</u>
	<u>2016</u>				
Asset Category	Level 1	Level 2	Level 3	NAV as a Practical Expedient	Total
Fixed income securities:					
CSUL Policies	\$ —	\$ —	\$ 151	\$ —	\$ 151
IPG contract	—	—	28	—	28
MainStay Indexed Bond Fund	15	—	—	—	15
Cash, cash equivalents, and short-terms	—	9	—	—	9
Equity securities:					
Vanguard Institutional Index Fund	158	—	—	—	158
MainStay International Equity Fund	36	—	—	—	36
CSVUL - MainStay VP Indexed Equity	—	—	187	—	187
CSVUL - MainStay VP International Equity	—	—	28	—	28
Total assets accounted for at fair value	<u>\$ 209</u>	<u>\$ 9</u>	<u>\$ 394</u>	<u>\$ —</u>	<u>\$ 612</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

The tables below present a reconciliation of all Level 3 assets and liabilities for the years ended December 31, 2017 and 2016 (in millions):

	2017				
	CSUL Policies	IPG Contract	CSVUL MainStay VP Indexed Equity	CSVUL MainStay VP International Equity	Total
Fair value, beginning of year	\$ 151	\$ 28	\$ 187	\$ 28	\$ 394
Return on plan assets:					
Relating to assets still held at the reporting date	3	1	33	9	46
Purchases	—	—	3	1	4
Sales	—	—	(1)	—	(1)
Fair value, end of year	\$ 154	\$ 29	\$ 222	\$ 38	\$ 443

	2016				
	CSUL Policies	IPG Contract	CSVUL MainStay VP Indexed Equity	CSVUL MainStay VP International Equity	Total
Fair value, beginning of year	\$ 148	\$ 27	\$ 174	\$ 31	\$ 380
Return on plan assets:					
Relating to assets still held at the reporting date	5	1	14	(3)	17
Purchases	—	—	—	—	—
Sales	(2)	—	(1)	—	(3)
Fair value, end of year	\$ 151	\$ 28	\$ 187	\$ 28	\$ 394

**Determination of Fair Values**

The following is a description of the valuation methodologies used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***IPG Contract***

The fair value of the IPG contract is its contract value, which represents contributions made, plus interest earned, less funds used to pay claims, premiums and fees. The IPG contract is classified as Level 3 due to the fact that the contract value relies on internal reports issued by NYLIM that are unobservable by third-party market participants.

***Money Market Mutual Funds***

The money market mutual funds consist of the Dreyfus Government CM Institutional Fund, BlackRock Federal Institutional Fund, and the JP Morgan U.S. Government Capital Fund. These funds are registered mutual funds which are priced and published daily at NAV. These funds have no restrictions as to contributions or withdrawals

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

made into or out of the funds. The NAV is the price at which shares are bought or sold with no restrictions or adjustments. As such, they are classified as Level 1.

***Mutual Funds***

The MainStay Mutual Funds and the Vanguard Funds are all open end registered mutual funds which are priced using a daily NAV. The prices are publicly published, and there are no restrictions on contributions and withdrawals. As such, they are classified as Level 1.

***CSUL and CSVUL Policies***

The CSUL and the CSVUL policies are reported at cash surrender value. These policies have surpassed their surrender charge period; therefore, their cash value and their contract value are equal. These policies are classified as Level 3 since the valuation relies on data supplied by an insurance carrier that is unique to these policies and the inputs are unobservable. There is also no secondary market for these assets.

***Cash, Cash Equivalents and Short-term Investments***

The carrying value of cash is equivalent to its fair value and is classified as Level 1 in the fair value hierarchy as the amounts are available on demand. Due to the short-term maturities, the carrying value of short-term investments and cash equivalents is presumed to approximate fair value and is classified as Level 2.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

The tax-qualified plans invest in New York Life's pooled separate accounts and real estate investment funds. These investments are valued based on the latest NAV received using NAV as a practical expedient. The following tables provide further information about the separate accounts and real estate investment funds (in millions):

		2017			
Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return Hedge Fund Separate Accounts	Long/Short Equity, Multi Strategy, Merger Arbitrage and Distressed Securities	\$ 52	\$ —	Annual, Semi-Annual, Quarterly	90 days (Assets subject to lock-up periods)
Long/Short Equity Hedge Fund Separate Accounts	Long/Short Equity	\$ 342	\$ —	Annual, Semi-Annual, Quarterly, Monthly	30 days - 90 days (Assets subject to lock-up periods)
Private Equity Separate Accounts	Leveraged Buyout, Mezzanine financing, Distressed Securities	\$ 553	\$ 462	N/A	N/A
Other Equity Separate Accounts	Indexed, Large Cap Enhanced, International, and Small Core Funds	\$ 2,497	\$ —	Daily, Pending Market Conditions	N/A
Real Estate Investment Funds	Real Estate and Real Estate Related Assets	\$ 390	\$ —	Quarterly	45 - 90 days (subject to availability of funds)
Real Estate Separate Account (REIT Equity)	Real Estate Investment Trust Equity	\$ 320	\$ —	Daily, Pending Market Conditions	N/A
		2016			
Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Absolute Return Hedge Fund Separate Accounts	Multi-Strategy	\$ 233	\$ —	Annual, Semi-Annual, Quarterly, Monthly	150 days or less (Assets subject to lock-up periods)
Long/Short Equity Hedge Fund Separate Accounts	Long/Short Equity	\$ 314	\$ —	Annual, Semi-Annual, Quarterly, Monthly, Bi-monthly	90 days or less (Assets subject to lock-up periods)
Private Equity Separate Accounts	Private Equity Leverage Buyout and Mezzanine Financing	\$ 475	\$ 555	N/A	N/A
Other Equity Separate Accounts	Indexed, Large Cap Enhanced, International, and Small Core Funds	\$ 2,200	\$ —	Daily, Pending Market Conditions	N/A
Real Estate Investment Funds	Real Estate and Real Estate Related Assets	\$ 362	\$ —	Quarterly	45 - 90 days (subject to availability of funds)
Real Estate Separate Account (REIT Equity)	Real Estate Investment Trust Equity	\$ 328	\$ —	Daily, Pending Market Conditions	N/A

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

**Cash Flows**

New York Life's funding policy for the tax-qualified pension plans is to make annual contributions that are no less than the minimum amount needed to comply with the requirements of the ERISA and the IRC, and no greater than the maximum amount deductible for federal income tax purposes. New York Life does not have any regulatory contribution requirements for 2018 but expects to make voluntary contributions into the Employee Pension Plan and the Agent Retirement Plan of \$300 million and \$200 million, respectively.

Prefunding contributions can be made to either of the VEBA Trusts to partially fund postretirement health and life benefits other than pensions. New York Life does not expect to make any prefunding contributions to either of the VEBA Trusts in 2018.

The estimated future benefit payments are based on the same assumptions used to measure the benefit obligations at December 31, 2017. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

	<b>Pension Plan Benefits</b>	<b>Other Post Retirement Plan Benefits</b>	<b>Postemployment Plan Benefits</b>
2018	\$ 378	\$ 63	\$ 8
2019	390	66	9
2020	402	68	9
2021	415	70	10
2022	429	73	10
Thereafter (2023-2027)	2,333	387	60
Total	<u>\$ 4,347</u>	<u>\$ 727</u>	<u>\$ 106</u>

New York Life expects to pay approximately \$46 million of non-qualified pension plan benefits during 2018. New York Life expects to pay approximately \$43 million for other postretirement benefits during 2018.

The projected 2018 annual benefit payments to plan participants from the GA Contracts issued by New York Life are \$332 million. The projected 2018 annual benefit payments for retiree health coverage related to the VEBA Trusts' investments in insurance contracts issued by New York Life is \$12 million.

For the years ended December 31, 2017 and 2016, New York Life paid \$50 million and \$51 million, respectively, in gross benefit payments related to health benefits. For the years ended December 31, 2017 and 2016, New York Life did not receive any gross subsidy receipts.

**Defined Contribution Plans**

New York Life maintains various tax-qualified and non-qualified defined contribution plans covering eligible U.S. employees and agents (401(k) plans). For employees, the plans provide for pre-tax salary reduction contributions (subject to maximums) and New York Life matching contributions of up to 4% of annual salary (base plus eligible incentive pay are considered). In both 2017 and 2016, New York Life's matching contributions to the employees' tax-qualified plan totaled \$36 million. A non-qualified plan credits participant and matching contributions with respect to compensation in excess of the amount that may be taken into account under the tax-qualified plan.

For agents, the plan provides for pre-tax commission reduction agreements, subject to maximums.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 15 – BENEFIT PLANS (continued)**

New York Life annually determines the level of contributions to the agents' plan. Contributions are based on each participant's net renewal commissions, net renewal premiums and cash values for the plan year on policies for which the participant is the original writing agent. In 2017 and 2016, New York Life's contributions to the agents' tax-qualified plan totaled \$2 million for both years. There is no non-qualified plan for agents.

**NOTE 16 – GOODWILL AND OTHER INTANGIBLE ASSETS**

**Goodwill**

The following is a rollforward of goodwill at December 31, 2017 and 2016 (in millions):

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 584	\$ 605
Acquisitions/dispositions	17	—
Cumulative translation adjustment	15	(21)
Balance at end of year	<u>\$ 616</u>	<u>\$ 584</u>

Goodwill is reported in Other assets. In 2017 and 2016, the Company completed the annual impairment tests of goodwill, which indicated no impairment was required.

During 2017, NYL Investments acquired 60% interest in Credit Value Partners LP ("CVP"), a specialist asset management firm with expertise in opportunistic and distressed debt and high yielding corporate credit investing, which resulted in an additional \$21 million of goodwill.

**Other Intangible Assets**

Other intangible assets at December 31, 2017 and 2016 consist of the following (in millions):

	<u>2017</u>			<u>2016</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Intangible assets subject to amortization:						
Asset management contracts	\$ 70	\$ 13	\$ 57	\$ 76	\$ 15	\$ 61
Management contracts	15	1	14	11	1	10
VOBA	4	1	3	8	4	4
Real estate	135	69	66	127	26	101
Other	2	—	2	3	1	2
Intangible assets not subject to amortization	109	—	109	157	—	157
Total	<u>\$ 335</u>	<u>\$ 84</u>	<u>\$ 251</u>	<u>\$ 382</u>	<u>\$ 47</u>	<u>\$ 335</u>

The value of business acquired ("VOBA") asset relates to the purchase of the Company's Mexican insurance subsidiary in 2000. The real estate asset relates to above market leases, leases in place, tenant relationships, and leasing commissions. Other is comprised of non-compete agreements and trademarks.

Intangible assets not subject to amortization consist mainly of asset management contracts where there is no finite useful life.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 16 – GOODWILL AND OTHER INTANGIBLE ASSETS (continued)**

All intangible assets are reported in Other assets. The Company completed the annual impairment tests of intangible assets, which required impairments of \$25 million and \$144 million at December 31, 2017 and 2016, respectively, which were recorded in Operating expenses; the majority of which were related to asset management contracts not subject to amortization.

Amortization expense was \$50 million and \$47 million for the years ended December 31, 2017 and 2016, respectively. Amortization expense for other intangible assets is expected to be approximately \$18 million in 2018, \$15 million in 2019, \$11 million in 2020, \$7 million in 2021 and \$4 million in 2022.

**NOTE 17 - COMMITMENTS AND CONTINGENCIES, LOANED SECURITIES AND REPURCHASE AGREEMENTS**

**Litigation**

The Company and/or its subsidiaries are defendants in individual and/or alleged class action suits arising from their agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, employment and/or other operations, including actions involving retail sales practices. Some of the actions seek substantial or unspecified compensatory and punitive damages. The Company and/or its subsidiaries are 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 consolidated 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.

**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 Company received notification of the insolvency of various life insurers. It is expected that these insolvencies will result in guaranty fund assessments against the Company of approximately \$6 million and \$11 million, which have been accrued in Other liabilities at December 31, 2017 and 2016, respectively. The Company expects to recover \$12 million and \$25 million at December 31, 2017 and 2016, respectively, of premium offsets reflected in Other assets.

**Guarantees**

The Company, in the ordinary course of its business, has numerous agreements with respect to its affiliates, related parties and other third parties. In connection with such agreements there may be related commitments or contingent liabilities, which may take the form of guarantees. The Company believes the ultimate liability that could result from these guarantees would not have a material adverse effect on the Company's financial position.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES, LOANED SECURITIES AND REPURCHASE AGREEMENTS (continued)**

**Loaned Securities and Repurchase Agreements**

The following table represents recognized repurchase agreements that are subject to an enforceable master netting agreement or similar agreement at December 31, 2017 and 2016 (in millions).

The Company's dollar rolls repurchase agreements to sell and repurchase securities are not done under master netting agreements or similar agreements and therefore are not included in this table:

	2017				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Securities Collateral <sup>(1)</sup>	Net Amount
<b>Offsetting of financial assets</b>					
Securities purchased under agreement to resell	\$ 538	\$ —	\$ 538	\$ (538)	\$ —
Total assets	<u>\$ 538</u>	<u>\$ —</u>	<u>\$ 538</u>	<u>\$ (538)</u>	<u>\$ —</u>
	2016				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Securities Collateral <sup>(1)</sup>	Net Amount
<b>Offsetting of financial assets</b>					
Securities purchased under agreement to resell	\$ 607	\$ —	\$ 607	\$ (607)	\$ —
Total assets	<u>\$ 607</u>	<u>\$ —</u>	<u>\$ 607</u>	<u>\$ (607)</u>	<u>\$ —</u>

<sup>1</sup> The actual collateral that was held by the custodian was \$548 million and \$619 million at December 31, 2017 and 2016, respectively, which is capped at the amount recorded in accordance with the authoritative guidance

The following table represents recognized securities lending transactions that are subject to an enforceable master netting agreement or similar agreement at December 31, 2017 and 2016 (in millions):

	2017				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Cash collateral <sup>(1)</sup>	Net Amount
<b>Offsetting of financial liabilities</b>					
Securities entered into a security lending agreement	\$ 1,353	\$ —	\$ 1,353	\$ (1,353)	\$ —
Total liabilities	<u>\$ 1,353</u>	<u>\$ —</u>	<u>\$ 1,353</u>	<u>\$ (1,353)</u>	<u>\$ —</u>
	2016				
	Gross Amounts of Recognized Financial Instruments	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Cash collateral <sup>(1)</sup>	Net Amount
<b>Offsetting of financial liabilities</b>					
Securities entered into a security lending agreement	\$ 1,328	\$ —	\$ 1,328	\$ (1,328)	\$ —
Total liabilities	<u>\$ 1,328</u>	<u>\$ —</u>	<u>\$ 1,328</u>	<u>\$ (1,328)</u>	<u>\$ —</u>

<sup>1</sup> The amount shown represents cash collateral received which is included in Other liabilities. At December 31, 2017 and 2016, the securities loaned had a fair value of \$1,325 million and \$1,298 million, respectively. Such assets reflect the extent of the Company's involvement in securities lending, not the Company's risk of loss.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES, LOANED SECURITIES AND REPURCHASE AGREEMENTS (continued)**

The following tables provide information about the Company's obligation regarding cash collateral received under securities lending transactions, by class of securities sold to counterparties, including the remaining contractual maturity of such transactions at December 31, 2017 and December 31, 2016:

2017						
Remaining Contractual Maturity of the Agreements						
	Open	30 days or less	31 to 60 days	61 to 90 days	Greater than 90 days	Total
<b>Securities Lending</b>						
U.S. Treasury	\$ 414	\$ —	\$ —	\$ —	\$ —	\$ 414
U.S. government corporations & agencies	12	—	—	—	—	12
Foreign governments	10	—	—	—	—	10
U.S. corporate	729	—	—	—	—	729
Foreign corporate	188	—	—	—	—	188
Total securities lending transactions	<u>\$ 1,353</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,353</u>

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
<b>Securities Lending</b>						
U.S. Treasury	\$ 67	\$ —	\$ —	\$ —	\$ —	\$ 67
U.S. government corporations & agencies	30	—	—	—	—	30
Foreign governments	6	—	—	—	—	6
U.S. corporate	1,010	—	—	—	—	1,010
Foreign corporate	215	—	—	—	—	215
Total securities lending transactions	<u>\$ 1,328</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,328</u>

At December 31, 2017 and 2016, the Company had no agreements outstanding to sell and repurchase securities.

**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.

**Lease Commitments**

The Company leases office space, distribution facilities, and certain office equipment under various agreements with various expiration dates. The leases contain provisions for payment of real estate taxes, building maintenance, electricity, and rent escalations.

For the years ended December 31, 2017 and 2016, rent expense was \$164 million and \$167 million, respectively. Future minimum lease payments under non-cancellable operating leases with original or remaining lease terms in excess of one year at December 31, 2017 were as follows (in millions):

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES, LOANED SECURITIES AND REPURCHASE AGREEMENTS (continued)**

	<u>Real Property</u>	<u>Equipment</u>	<u>Total</u>
2018	\$ 150	\$ 12	\$ 162
2019	142	3	145
2020	139	2	141
2021	134	1	135
2022	117	1	118
Thereafter	443	4	447
Total	<u>\$ 1,125</u>	<u>\$ 23</u>	<u>\$ 1,148</u>

**NOTE 18 - INCOME TAXES**

The components of the total Income tax expense for the years ended December 31 are as follows (in millions):

	<u>2017</u>	<u>2016</u>
<b>Current</b>		
Federal	\$ (99)	\$ 431
State and local	7	8
Foreign	68	52
Total current income tax (benefit) expense	<u>(24)</u>	<u>491</u>
<b>Deferred</b>		
Federal	221	65
Foreign	30	(72)
Total deferred income tax expense (benefit)	<u>250</u>	<u>(7)</u>
Income tax expense	<u>\$ 226</u>	<u>\$ 484</u>

At December 31, 2017 and 2016, the Company recorded a net current income tax receivable of \$383 million and a net current income tax payable of \$26 million, respectively, which is included in Other assets and liabilities. The Company's actual income tax expense for the years ended December 31, 2017 and 2016 differs from the expected amount computed by applying the U.S. statutory federal income tax rate of 35% for the following reasons (\$ in millions):

	<u>2017</u>		<u>2016</u>	
Statutory federal income tax expense	\$1,142	35.0%	\$742	35.0%
Foreign operations, net of foreign taxes	(32)	(1.0)%	(9)	(0.4)%
Tax exempt income	(137)	(4.2)%	(110)	(5.2)%
Investment credits	(136)	(4.2)%	(146)	(6.9)%
Amortization and deductions of investments in qualified affordable housing projects	100	3.1%	78	3.7%
Non-controlling interest	(97)	(3.0)%	(93)	(4.4)%
Impact of TCJA	(602)	(18.5)%	—	—%
Other	(12)	(0.2)%	22	1.2%
Actual income tax expense	<u>\$226</u>	<u>7.0%</u>	<u>\$484</u>	<u>23.0%</u>

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 18 - INCOME TAXES (continued)**

The TCJA was enacted on December 22, 2017 and it significantly changes U.S. Tax law primarily by lowering the corporate income tax rate from 35% to 21% beginning in 2018 and imposing a one-time tax on earnings from foreign subsidiaries where tax had been deferred. The impact of TCJA reflected above, \$602 million, consists of a tax benefit of \$650 million due to the revaluation of deferred tax liabilities to 21% offset by an income tax expense of \$39 million for the one-time tax on previously untaxed foreign earnings and a \$9 million income tax expense for other miscellaneous items.

All income tax effects have been identified and appropriately accounted for as a result of TCJA in accordance with ASC 740 and SAB No. 118. The tax accounting for the revaluation of deferred tax liabilities is complete. The following income tax effects have been recorded as provisional as the analysis is incomplete but a reasonable estimate can be determined: 1) one-time tax on previously un-taxed foreign earnings and 2) restatement as of December 31, 2017 of life insurance reserves for tax purposes pursuant to the TCJA. The necessary information is not available, prepared, and analyzed (including computations) to determine certain income tax effects. This applies to any change to the assertion that earnings of foreign affiliates are indefinitely reinvested. As a result, at December 31, 2017, the Company retains its assertion that the earnings of such foreign affiliates are indefinitely reinvested. In light of the enactment of the TCJA, determining the amount of the tax liability that would arise if these earnings were remitted is not practicable. The Company is in the process of quantifying the impact of the TCJA and will record any adjustments in accordance with the guidance provided in SAB 118.

The one-time tax on previously untaxed foreign earnings (the "Toll Charge") is a tax on previously untaxed accumulated earnings and profits ("E&P") of certain foreign subsidiaries. To determine the amount of the Toll Charge, the Company must determine, in addition to other factors, the amount of post-1986 E&P of the relevant subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. The Company was able to make a reasonable estimate and recorded a provisional Toll Charge obligation of \$39 million.

For tax years beginning January 1, 2018, the TCJA limits life insurance reserves for tax purposes to the greater of the net surrender value or 92.81% of NAIC required reserves. In general, the TCJA will result in lower life insurance reserves for tax purposes than under pre-TCJA law. Tax accounting for these changes requires the restatement of December 31, 2017 tax insurance reserves from pre-TCJA rules to the amounts required to be held under the TCJA. This revaluation requires establishing a "gross up" in which an additional deferred tax asset for the revised book to tax differences is recorded. The TCJA also requires the recapture of prior years' tax benefits from the higher life insurance reserves. This recapture is paid ratably over eight years beginning in 2018 and is recorded in the financial statements for the year ended December 31, 2017 as a deferred tax liability in an equal amount to the additional deferred tax asset. The Company has recorded as a provisional amount offsetting deferred tax assets and deferred tax liabilities in the amount of \$774 million.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 18 - INCOME TAXES (continued)**

The components of the net deferred tax liability reported in Other liabilities at December 31, 2017 and 2016, are as follows (in millions):

	2017	2016
<b>Deferred tax assets</b>		
Future policy benefits	\$ 1,014	\$ 2,053
Employee and agent benefits	847	1,601
Net operating losses	29	31
Other	140	63
	2,030	3,748
Gross deferred tax assets before valuation allowance		
Valuation allowance	(27)	(27)
Gross deferred tax assets after valuation allowance	2,003	3,721
 <b>Deferred tax liabilities</b>		
DAC	720	1,069
Investments	2,356	3,085
Fixed assets	99	126
Other	1	5
Gross deferred tax liabilities	3,176	4,285
 Net deferred tax liability	\$ 1,173	\$ 564

The deferred tax assets relate to temporary differences that are expected to reverse as net ordinary deductions or capital losses. Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes. A valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

At December 31, 2017 and 2016, the Company had gross net operating loss (“NOL”) carry forwards of \$224 million and \$219 million, respectively. At December 31, 2017, deferred tax assets for these NOLs will begin to expire in 2027.

The Company’s federal income tax returns are routinely audited by the 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 consolidated financial position and results of operations as a result of these audits. The Company believes that its recorded income tax liabilities for uncertain tax positions are adequate for all open years.

The Company’s total interest expense associated with the liability for unrecognized tax benefits for the years ended December 31, 2017 and 2016 aggregated \$10 million and \$ 17 million, respectively, and are included in Income tax expense. At December 31, 2017 and 2016, the Company had \$32 million and \$30 million, respectively, of accrued interest associated with the liability for unrecognized tax benefits, which is reported in Other liabilities. The \$2 million increase in the liability for unrecognized tax benefits is the result of a \$10 million increase in interest expense and a \$8 million decrease resulting from settlements with tax authorities recorded in 2017. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 19 - DEBT**

Debt consisted of the following at December 31, 2017 and 2016 (in millions):

	<u>2017</u>	<u>2016</u>
<b>Recourse debt</b>		
6.75% Surplus Notes, due November 15, 2039	\$ 998	\$ 998
5.875% Surplus Notes, due May 15, 2033	992	992
Capital Corporation's commercial paper debt issuance, various maturity dates through March 2018 and 2017, respectively (the weighted average interest rate is approximately 1.29% and 0.73% for 2017 and 2016, respectively)	503	503
Other, primarily deferred debt issuance costs	(16)	(16)
Total recourse debt	<u>2,477</u>	<u>2,477</u>
<b>Non-recourse debt</b>		
Collateralized structures	2,640	3,015
Secured borrowing agreements	292	257
Other	308	344
Total non-recourse debt	<u>3,240</u>	<u>3,616</u>
Total debt	<u>\$ 5,717</u>	<u>\$ 6,093</u>

The following table presents the contractual maturities of the Company's long-term debt at December 31, 2017 (in millions):

	<u>2017</u>
2018	\$ 688
2019	109
2020	63
2021	114
2022	142
2023 & thereafter	8,383
Total debt	<u>\$ 9,499</u>

**Recourse Debt**

On October 8, 2009, New York Life issued surplus notes ("2009 Notes") with a principal balance of \$1,000 million, at a discount of \$2 million. On May 5, 2003, New York Life issued surplus notes ("2003 Notes") with a principal balance of \$1 billion, at a discount of \$10 million. Both the 2003 Notes and 2009 Notes (collectively the "Notes") were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by a United States bank as registrar/paying agent. Interest on the Notes is scheduled to be paid semi-annually on May 15 and November 15 of each year.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of New York Life. There are no principal payments due in respect of the Notes prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent of the Department and only out of surplus funds, which the Superintendent determines to be available for such payments under New York State Insurance law. Provided that approval is granted by the Superintendent, the Notes may be

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 19 – DEBT (continued)**

redeemed at the option of the Company at any time, in whole or in part, at the “make-whole” redemption price equal to the greater of (1) the principal amount of the Notes to be redeemed, or (2) the sum of the present values of the remaining scheduled interest and principal payments on the Notes to be redeemed, excluding accrued interest as of the date on which the Notes are to be redeemed, discounted to the date of redemption on a semi-annual basis at an adjusted treasury rate plus 20 basis points (“bps”) in the case of the 2003 Notes and 40 bps in the case of the 2009 Notes, plus in each case, accrued interest on the Notes to be redeemed through the redemption date.

For each year ended December 31, 2017 and 2016, interest expense on New York Life’s Notes was \$126 million. Accrued interest for the years ended December 31, 2017 and 2016 was \$16 million.

At December 31, 2017 and 2016, the face value of commercial paper issued by New York Life Capital Corporation, an indirect wholly owned subsidiary of New York Life, was approximately \$503 million for both years. For the years ended December 31, 2017 and 2016, interest expense totaled \$5 million and \$3 million, respectively.

**Non-Recourse Debt**

Non-recourse debt primarily represents debt issued by special purpose entities. Only the assets of these entities can be used to settle their respective liabilities, and under no circumstances is the Company or any of its subsidiaries or affiliates liable for any principal or interest shortfalls should any arise.

The Company consolidated certain collateralized structures for which it is the investment manager. For the years ended December 31, 2017 and 2016, these entities had \$2,640 million and \$3,015 million, respectively, of long-term debt. The long-term debt related to these structures bears interest primarily at LIBOR plus a spread ranging from 0.22% to 7.5%, payable primarily on a quarterly basis and is expected to be repaid over the next 12 years. For the years ended December 31, 2017 and 2016, interest expense related to these obligations was \$44 million and \$70 million, respectively. After the non-call period, the long-term debt may be redeemed by liquidation, in whole only, by the majority of the residual tranche holders at the respective redemption prices. Refer to Note 6 - Investments for the classification and valuation of the assets supporting these liabilities.

In accordance with authoritative guidance on collateralized finance entities, the Company has elected the measurement alternative in measuring the long-term debt of certain of its’ consolidated collateralized structures for which it is the investment manager. The measurement alternative allows the financial assets and the financial liabilities to be measured using the more observable of the two. The Company has measured the long-term debt of certain of its’ consolidated collateralized structures using the fair value of the entities financial assets, as their value has been deemed more observable. Refer to Note 6 - Investments, for the classification and valuation of the assets supporting this liability.

The Company, through a real estate fund consolidated by its indirect wholly owned subsidiary, NYL Investments, has entered into certain secured borrowing agreements. At December 31, 2017 and 2016, NYL Investments held long-term debt of \$292 million and \$257 million, respectively. For the years ended December 31, 2017 and 2016, interest expense related to these obligations totaled \$9 million and \$10 million, respectively.

The Company, through VIEs controlled by MCF and its subsidiaries, has entered into certain collateralized loan agreements to borrow non-recourse debt. For the years ended December 31, 2017 and 2016, interest expense was \$8 million. At December 31, 2017, there was no accrued interest, and in 2016, accrued interest was \$2 million. Refer to Note 6 – Investments for the classification and valuation of the assets supporting this liabilities.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 19 – DEBT (continued)**

**Line of Credit**

Effective April 13, 2016, the Company entered into a five-year \$1,250 million revolving credit facility agreement ("the Facility") with a syndicate of lenders expiring on April 13, 2021. Facility fees are payable at an annual rate of 5 bps of the lenders' commitment amounts. For the Facility, the borrowing rate is 70 bps over LIBOR.

Facility fees and borrowing rates could increase if New York Life's Standard & Poor's and Moody's Financial Strength ratings were downgraded. At December 31, 2017 and 2016, the Company has not made any borrowings under the Facility.

**NOTE 20 - EQUITY**

The balance of and changes in each component of AOCI attributable to New York Life were as follows (in millions):

	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses) <sup>(1)</sup>	Defined Benefit Plans Adjustment	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance, December 31, 2015</b>	\$ (694)	\$ 3,396	\$ (1,642)	\$ 1,060
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment (net of income tax benefit of \$1 million)	(84)	—	—	(84)
Change in net unrealized investment gains (losses), net of related offsets, reclassification adjustments and income taxes	—	225	—	225
Benefit plans:				
Gains and prior service credits (costs) arising during the period (net of income tax expense of \$110 million)	—	—	(197)	(197)
Less: amortization of losses and prior service costs included in net periodic benefit costs, (net of income tax benefit of \$44 million)	—	—	79	79
Benefit plans, net	—	—	(118)	(118)
Other comprehensive (loss) income, net of tax	(84)	225	(118)	23
<b>Balance, December 31, 2016</b>	<b>(778)</b>	<b>3,621</b>	<b>(1,760)</b>	<b>1,083</b>
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment (net of income tax benefit of \$14 million)	111	—	—	111
Change in net unrealized investment gains, net of related offsets, reclassification adjustments and income taxes	—	967	—	967
Benefit plans:				
Losses and prior service costs arising during the period (net of income tax expense of \$71 million)	—	—	(282)	(282)
Less: amortization of losses and prior service costs included in net periodic benefit costs, (net of income tax benefit of \$42 million)	—	—	77	77
Benefit plans, net	—	—	(205)	(205)
Other comprehensive income (loss), net of tax	111	967	(205)	873
Change in accounting principle - reclass of stranded tax effects	(9)	732	(360)	363
<b>Balance, December 31, 2017</b>	<b>(676)</b>	<b>5,320</b>	<b>(2,325)</b>	<b>2,319</b>

<sup>1</sup> Includes cash flow hedges. Refer to Note 7 - Derivative Instruments and Risk Management for information on cash flow hedges. Refer to Note 10 - Investment Income and Investment Gains and Losses for additional information regarding unrealized investment gains or losses, including the split between amounts related to fixed maturities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains or losses.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 20 – EQUITY (continued)**

The following is a rollforward of AOCI attributable to New York Life for the years ended December 31, 2017 and 2016 (in millions):

2017				
Accumulated Other Comprehensive Income (Loss) Attributable to New York Life				
	Foreign Currency Translation Adjustments <sup>(1)</sup>	Net Unrealized Investment Gains (Losses) <sup>(1) (2)</sup>	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost) <sup>(1)</sup>	Total AOCI <sup>(1)</sup>
<b>Beginning balance</b>	(778)	3,621	(1,760)	1,083
Change in OCI before reclassifications	111	976	(282)	805
Amounts reclassified from AOCI	—	(9)	77	68
Net OCI	111	967	(205)	873
Change in accounting principle - reclass of stranded tax effects	\$ (9)	\$ 732	\$ (360)	\$ 363
<b>Ending balance</b>	<b>\$ (676)</b>	<b>\$ 5,320</b>	<b>\$ (2,325)</b>	<b>\$ 2,319</b>
2016				
Accumulated Other Comprehensive Income (Loss) Attributable to New York Life				
	Foreign Currency Translation Adjustments <sup>(1)</sup>	Net Unrealized Investment Gains (Losses) <sup>(1) (2)</sup>	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost) <sup>(1)</sup>	Total AOCI <sup>(1)</sup>
<b>Beginning balance</b>	\$ (694)	\$ 3,396	\$ (1,642)	\$ 1,060
Change in OCI before reclassifications	(84)	298	(197)	17
Amounts reclassified from AOCI	—	(73)	79	6
Net OCI	(84)	225	(118)	23
<b>Ending balance</b>	<b>\$ (778)</b>	<b>\$ 3,621</b>	<b>\$ (1,760)</b>	<b>\$ 1,083</b>

<sup>1</sup> All amounts are net of tax and DAC.

<sup>2</sup> Includes cash flow hedges and net investment hedges. Refer to Note 7 - Derivative Instruments and Risk Management for information on cash flow hedges. Refer to Note 10 - Investment Income and Investment Gains and Losses for additional information regarding unrealized investment gains or losses, including the split between amounts related to fixed maturities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains or losses.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 20 – EQUITY (continued)**

The amounts reclassified out of AOCI<sup>(1)</sup> attributable to New York Life for the years ended December 31, 2017 and 2016 were as follows (in millions):

	<b>2017</b>	<b>2016</b>	<b>Affected Line Item in the Consolidated Statements of Operations</b>
<b>Net unrealized investment (gains) losses</b>			
Gains and losses on cash flow hedges			
Interest rate swaps	\$ (6)	\$ (7)	Net investment income
Interest rate swaps	(17)	7	Net investment gains (losses)
Currency swaps	5	(16)	Net investment gains (losses)
Currency swaps	—	5	Interest credited to policyholders' account balance
Currency swaps	(2)	(3)	Net investment income
Gains and losses on available-for-sale securities			
Impairment losses	2	(16)	Net investment gains (losses)
All other	12	(82)	Net investment gains (losses)
	<u>(6)</u>	<u>(112)</u>	Total before tax
	<u>(3)</u>	<u>(39)</u>	Income tax expense
	<u>(9)</u>	<u>(73)</u>	Net income
<b>Amortization of defined benefit pension items</b>			
Prior service credit	(38)	(42)	Operating expenses
Actuarial loss	158	165	Operating expenses
	<u>120</u>	<u>123</u>	Total before tax
	<u>43</u>	<u>44</u>	Income tax expense
	<u>77</u>	<u>79</u>	Net income
<b>Total reclassifications for the period</b>	<u>\$ 68</u>	<u>\$ 6</u>	Net income

<sup>1</sup> Negative amounts indicate gains/benefits reclassified out of AOCI. Positive amounts indicate losses/costs reclassified out of AOCI.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED GAAP BASIS FINANCIAL STATEMENTS**

**NOTE 21 - SUPPLEMENTAL CASH FLOW INFORMATION**

Income taxes paid were \$240 million and \$134 million for the years ended December 31, 2017 and 2016, respectively.

Interest paid was \$489 million and \$436 million for the years ended December 31, 2017 and 2016, respectively.

**Non-cash transactions**

Non-cash investing transactions were \$674 million for the year ended December 31, 2017, primarily related to fixed maturities, equity securities, real estate, mortgage loans, limited partnerships and other assets. Non-cash investing transactions were \$467 million for the year ended December 31, 2016, primarily related to fixed maturities, equity securities, real estate, limited partnerships and other assets.

**NOTE 22 – STATUTORY FINANCIAL INFORMATION**

As discussed in Note 2 - Basis of Presentation, the Department recognizes only SAP prescribed or permitted practices by the State of New York for determining and reporting the financial position and results of operations of an insurance company, for determining its solvency under New York State Insurance law and whether its financial position warrants the payment of a dividend to its policyholders. In addition, the Company's insurance subsidiaries, NYLIAC and NYLAZ, are subject to reporting requirements with the Delaware and Arizona Insurance Departments, respectively. No consideration is given by any of the State Insurance Departments to financial statements prepared in accordance with GAAP in making such determinations.

The following table reconciles the Company's capital and surplus at December 31 between practices prescribed by the State of New York and NAIC SAP (in millions):

	<u>2017</u>	<u>2016</u>
Statutory capital and surplus, State of New York basis	\$ 20,357	\$ 20,108
State prescribed practices:		
Deferred premiums	122	119
Admitted unearned reinsurance premiums	(48)	(45)
Statutory capital and surplus, NAIC SAP	<u>\$ 20,431</u>	<u>\$ 20,182</u>

**NOTE 23 – SUBSEQUENT EVENTS**

At March 8, 2018, 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 consolidated financial statements that would have a material effect on the financial condition of the Company.