NEW YORK LIFE INSURANCE AND ANNUITY CORPORATION

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

FINANCIAL STATEMENTS
(STATUTORY BASIS)

December 31, 2017 and 2016

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Report of Independent Auditors

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

We have audited the accompanying statutory financial statements of New York Life Insurance and Annuity Corporation (the "Company"), which comprise the statutory statements of financial position as of December 31, 2017 and 2016, and the related statutory statements of operations, of changes in capital and surplus, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

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

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Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Delaware State Insurance Department described in Note 2.

Emphasis of Matter

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

PricewaterhouseCoopers LLP

March 8, 2018

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

STATUTORY STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
	(in millions)	
Assets		
Bonds	$ 82,299	$ 77,313
Common and preferred stocks	1,406	1,090
Mortgage loans	13,657	12,984
Policy loans	867	867
Limited partnerships and other invested assets	1,271	1,175
Cash, cash equivalents and short-term investments	2,211	1,923
Other investments	326	565
Total cash and invested assets	102,037	95,917
Investment income due and accrued	692	653
Interest in annuity contracts	8,229	7,448
Other assets	607	477
Separate accounts assets	41,286	36,858
Total assets	$ 152,851	$ 141,353
Liabilities and Surplus		
Liabilities:		
Policy reserves	86,310	80,438
Deposit funds	1,176	1,106
Policy claims	198	151
Separate accounts transfers due and accrued	(993)	(938)
Obligations under structured settlement agreements	8,229	7,448
Amounts payable under security lending agreements	675	675
Other liabilities	1,426	1,539
Funds held under coinsurance - affiliated	4,015	4,154
Interest maintenance reserve	154	147
Asset valuation reserve	1,189	1,052
Separate accounts liabilities	41,285	36,856
Total liabilities	143,664	132,628
Capital and Surplus:		
Capital stock - par value $10,000 (20,000 shares authorized, 2,500 issued and outstanding)	25	25
Gross paid in and contributed surplus	3,928	3,928
Unassigned surplus	5,234	4,772
Total capital and surplus	9,187	8,725
Total liabilities, capital and surplus	$ 152,851	$ 141,353

See accompanying notes to financial statements.

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

STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2017	**2016**
	(in millions)	
Income		
Premiums	$ 13,392	$ 12,770
Net investment income	3,934	3,795
Other income	900	862
Total income	18,226	17,427
Benefits and expenses		
Benefit payments:		
Death benefits	463	394
Annuity benefits	2,799	2,555
Surrender benefits	6,266	5,805
Other benefit payments	60	44
Total benefit payments	9,588	8,798
Additions to policy reserves	5,855	5,564
Net transfers to separate accounts	240	297
Adjustment in funds withheld	189	179
Operating expenses	1,487	1,420
Total benefits and expenses	17,359	16,258
Gain from operations before federal income taxes	867	1,169
Federal and foreign income taxes	249	279
Net gain from operations	618	890
Net realized capital gains (losses), after taxes and transfers to interest maintenance reserve	34	(112)
Net income	$ 652	$ 778

See accompanying notes to financial statements.

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

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

	Years Ended December 31,	
	2017	**2016**
	(in millions)	
Capital and surplus, beginning of year	$ 8,725	$ 8,146
Net income	652	778
Change in net unrealized capital gains on investments	100	32
Change in nonadmitted assets	408	(91)
Change in reserve valuation basis	—	(72)
Change in asset valuation reserve	(137)	(121)
Change in net deferred income tax	(282)	54
Dividend to stockholder	(275)	—
Other adjustments, net	(4)	(1)
Capital and surplus, end of year	$ 9,187	$ 8,725

See accompanying notes to financial statements.

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

STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2017	2016
	(in millions)	
Cash flows from operating activities:		
Premiums received	$ 13,378	$ 12,765
Net investment income received	3,585	3,518
Other	899	851
Total received	17,862	17,134
Benefits and other payments	9,478	8,783
Net transfers to separate accounts	302	336
Operating expenses	1,590	1,379
Federal income taxes	288	254
Total paid	11,658	10,752
Net cash from operating activities	6,204	6,382
Cash flows from investing activities:		
Proceeds from investments sold	5,287	4,257
Proceeds from investments matured or repaid	10,985	10,048
Cost of investments acquired	(21,925)	(20,896)
Net change in policy loans	—	5
Net cash used in investing activities	(5,653)	(6,586)
Cash flows from financing and miscellaneous activities:		
Dividend to stockholder	(275)	—
Other miscellaneous uses	12	(164)
Net cash from financing and miscellaneous activities	(263)	(164)
Net increase (decrease) in cash, cash equivalents and short-term investments	288	(368)
Cash, cash equivalents and short-term investments, beginning of year	1,923	2,291
Cash, cash equivalents and short-term investments, end of year	$ 2,211	$ 1,923

See accompanying notes to financial statements.

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

STATUTORY STATEMENTS OF CASH FLOWS (supplemental)

	Years Ended December 31,			
	2017		2016	
	(in millions)			
Supplemental disclosures of cash flow information:				
Non-cash activities during the year not included in the Statutory Statements of Cash Flows:				
Exchange/conversion of bonds to bonds	$	336	$	418
Capitalized interest on bonds	$	136	$	143
Bond to be announced commitments - purchased/sold	$	94	$	903
Depreciation/amortization on fixed assets	$	73	$	71
Transfer of bond investment to other invested assets	$	26	$	—
Merger/exchange/spinoff of equity investment to equity investment	$	26	$	13
Capitalized interest on mortgage loans	$	24	$	5
Transfer of mortgage loan to other invested assets	$	23	$	—
Exchange of bonds to stocks	$	12	$	88
Transfer of other invested assets to stocks	$	—	$	51
Other	$	28	$	27

See accompanying notes to financial statements.

NOTE 1 - NATURE OF OPERATIONS

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

NOTE 2 - BASIS OF PRESENTATION

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

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

Statutory vs. U.S. GAAP Basis of Accounting

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

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

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

NOTE 2 - BASIS OF PRESENTATION (continued)

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

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

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

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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION (continued)

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

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

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

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

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

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

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

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

NOTE 2 - BASIS OF PRESENTATION (continued)

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

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

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

The following table reconciles the Company's statutory capital and surplus determined in accordance with statutory accounting practices with the Company's consolidated equity determined on a U.S. GAAP basis at December 31, 2017 and 2016 (in millions):

	2017	2016
Capital and surplus	$ 9,187	$ 8,725
AVR	1,189	1,052
Capital and surplus and AVR	10,376	9,777
Adjustments to statutory-basis for:		
Deferred acquisition cost asset ("DAC")	3,249	3,412
Mark-to-market on investments, pre-tax and pre-DAC	2,952	1,904
Sales inducement asset	625	664
Net assets of separate accounts	179	149
Removal of IMR liability	153	147
Inclusion of statutory nonadmitted assets	65	98
Net adjustment for deferred taxes	(1,090)	(1,071)
Differences in reserve valuation bases for future benefits and policyholders' account balances	(1,006)	(1,361)
Unearned revenue liability	(680)	(682)
Other	32	46
Total adjustments	4,479	3,306
Total consolidated U.S. GAAP equity	$ 14,855	$ 13,083

NOTE 2 - BASIS OF PRESENTATION (continued)

The following table reconciles the Company's statutory net income determined in accordance with statutory accounting practices with the Company's consolidated net income determined on a U.S. GAAP basis for the years ended December 31, 2017 and 2016 (in millions):

	2017	2016
Net gain from operations	$ 618	$ 890
Net realized capital gains (losses)	34	(112)
Statutory net income	652	778
Adjustments to statutory net income for:		
Differences in reserve valuation bases for future benefits and policyholders' account balances	359	(129)
Inclusion of deferred income tax benefit	309	84
Inclusion of GAAP net investment gains	120	117
Removal of IMR capitalization, net of amortization	7	(28)
Net deferral of unearned revenue liability	(5)	(15)
Net capitalization of DAC	(46)	(77)
Other	23	(25)
Total adjustments	767	(73)
Total consolidated U.S. GAAP net income	$ 1,419	$ 705

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Investments

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

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

Loan-backed and structured securities, which are included in bonds, are valued at amortized cost using the interest method including current assumptions of projected cash flows. Loan-backed and structured securities in or near default (rated NAIC 6) are stated at the lower of amortized cost or fair value. Amortization of the premium or accretion of discount from the purchase of these securities considers the estimated timing and amount of cash flows of the underlying loans, including prepayment assumptions based on data obtained from external sources or internal estimates. Projected future cash flows are updated monthly, and the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. For high credit quality loan-backed and structured securities (those rated AA or above at the date of acquisition), the adjustments to amortized cost are recorded

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

as a charge or credit to net investment income in accordance with the retrospective method. For loan-backed and structured securities that are not of high credit quality (those rated below AA at date of acquisition), certain floating rate securities and securities with the potential for a loss of a portion of the original investment due to contractual prepayments (e.g. interest only securities), the effective yield is adjusted prospectively for any changes in estimated cash flows.

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

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

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

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

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

The determination of cash flow estimates in the net present value 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, other information, such as industry analyst reports and forecasts, sector credit ratings, the financial condition of the bond insurer for insured fixed income securities and other market data relevant to the collectability may also be considered, as well as the expected timing of the receipt of insured payments, if any. The estimated fair value of the collateral may be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of the collateral for recovery.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Company accrues interest income on mortgage loans to the extent it is deemed collectible. The Company places loans on non-accrual status, and ceases to recognize interest income when management determines that the collection of interest and repayment of principal is not probable. Any accrued but uncollected interest is reversed out of interest income once a loan is put on non-accrual status. Interest payments received on mortgage loans where interest payments have been deemed uncollectible, are recognized on a cash basis and recorded as 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 mortgage loan has any investment income due and accrued that is 90 days past due and collectible, the investment income will continue to accrue, but all accrued interest related to the mortgage loan is reported as a nonadmitted asset, until such time that it has been paid or is deemed uncollectible.

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

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

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

Limited partnerships and limited liability companies which have admissible audits are carried at the underlying audited equity of the investee. 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.

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

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

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

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

Short-term investments consist of securities with remaining maturities of one year or less, but greater than three months at the time of acquisition and are carried at amortized cost, which approximates fair value. Cash and cash equivalents includes cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at date of purchase and are carried at amortized cost. Cash and cash equivalents also include money market mutual funds which are stated at fair value.

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

The AVR is used to stabilize surplus from fluctuations in the market value of bonds, stocks, mortgage loans, real estate, limited partnerships and other investments. Changes in the AVR are accounted for as direct

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Loaned Securities and Repurchase Agreements

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

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

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

Premiums and Related Expenses

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

Policy Reserves

Policy reserves are based on mortality tables and valuation interest rates, which are consistent with statutory requirements and are designed to be sufficient to provide for contractual benefits. The Company holds reserves greater than those developed under the minimum statutory reserving rules when the valuation actuary

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

determines that the minimum statutory reserves are inadequate. Actual results could differ from these estimates and may result in the establishment of additional reserves. The valuation actuary monitors actual experience and, where circumstances warrant, revises assumptions and the related estimates for policy reserves. Refer to Note 12 - Insurance Liabilities, for discussion of reserves in excess of minimum NAIC requirements.

Federal Income Taxes

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

The Company is a member of an affiliated group, which files a consolidated federal income tax return with New York Life. The consolidated income tax provision or benefit is allocated among the members of the group in accordance with a tax allocation agreement. This tax allocation agreement provides that the Company 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 the New York Life's consolidated returns. Intercompany tax balances are settled quarterly on an estimated basis with a final settlement occurring within 30 days of the filing of the consolidated tax return. 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.

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 earning 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 to a U.S. minimum tax to earnings of foreign subsidiaries in excess of 10% deemed return on tangible assets for 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.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

On February 8, 2008, the NAIC issued Interpretation ("INT") 18-01 to address the reporting and updating of estimates that companies are required to reflect as various accounting adjustments in their financial statements as a result of TCJA. This guidance provides that, although some accounting computations may be considered "complete", other accounting computations or assessments may be considered "incomplete" when the financial statements are filed. As such, for those items which are "incomplete" but for which a reasonable estimate can be made, those amounts should be recorded as provisional in the financial statements for the year ended December 31, 2017. For those items for which a reasonable estimate cannot be made, companies may continue to apply pre-TCJA law. Changes to amounts recognized in the financial statements for the year ended December 31, 2017 as a result of TCJA shall be recognized as a change in accounting estimate, pursuant to SSAP No. 3, when the information necessary to update the estimate becomes available.

Separate Accounts

The Company has established both non-guaranteed and guaranteed separate accounts with varying investment objectives which are segregated from the Company's general account and are maintained for the benefit of separate accounts policyholders. Assets held in non-guaranteed separate accounts are stated at market value. Assets held in guaranteed separate accounts are carried at the same basis as the general account up to the value of policyholder reserves and at fair value thereafter.

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

Other Assets and Liabilities

Other assets primarily consist of net DTAs and other receivables.

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

Nonadmitted Assets

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

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

Fair Value of Financial Instruments and Insurance Liabilities

Fair value of various assets and liabilities are included throughout the notes to the financial statements. Specifically, fair value disclosure of investments held is reported in Note 6 - Investments. Fair values for derivative instruments are included in Note 7 - Derivative Instruments and Risk Management. Fair values

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (continued)

for insurance liabilities are reported in Note 12 - Insurance Liabilities. The aggregate fair value of all financial instruments summarized by type is included in Note 9 - Fair Value Measurements.

Contingencies

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

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

Foreign Currency Transactions

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

NOTE 4 - BUSINESS RISKS AND UNCERTAINTIES

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

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

The Company's insurance liabilities and assets under management are exposed to market risk, policyholder behavior risk and mortality/longevity risk. Market volatility and other equity market conditions may affect the Company’s exposure to risks related to guaranteed death benefits and guaranteed living benefits on variable 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

NOTE 4 - BUSINESS RISKS AND UNCERTAINTIES (continued)

customer business, damage the Company's reputation, expose the Company to litigation and regulatory action and adversely impact its profitability.

NOTE 5 - RECENT ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Principles

Accounting changes adopted to conform to the provisions of NAIC SAP or other state prescribed accounting practices are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is generally reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. Generally, the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. There were no significant accounting changes in 2017 or 2016.

In 2017, the NAIC adopted revisions to SSAP 37 "Mortgage Loans." The revisions clarify the types of mortgage loan transactions that qualify for accounting and reporting under SSAP 37 in instances where the reporting entity is not the only lender in a mortgage loan transaction. The revisions also incorporate additional disclosures. The adoption of these revisions did not have an impact on the Company's statement of financial positions or results of operations. New disclosures related to the adoption of this guidance are included in Note 6 - Investments.

In 2016, the NAIC adopted revisions to SSAP 103 "Transfers and Servicing of Financial Assets." The revisions incorporate new required disclosures for repurchase and reverse repurchase transactions with an effective date of December 31, 2017. New disclosures related to the adoption of this guidance are included in Note 6 - Investments.

Future Adoption of New Accounting Pronouncement

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

NOTE 6 - INVESTMENTS

Bonds

The carrying value and estimated fair value of bonds at December 31, 2017 and 2016, by maturity, were as follows (in millions):

	2017		2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Due in one year or less	$ 3,759	$ 3,804	$ 4,543	$ 4,613
Due after one year through five years	23,810	24,349	22,636	23,332
Due after five years through ten years[1]	30,750	31,508	29,795	30,249
Due after ten years	23,980	25,610	20,339	21,047
Total	$ 82,299	$ 85,271	$ 77,313	$ 79,241

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

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

In addition to the information disclosed above, short-term investments with a carrying value of $15 million and $180 million at December 31, 2017 and 2016, respectively, and cash equivalents with a carrying value of $2,280 million and $1,933 million at December 31, 2017 and 2016, respectively are due in one year or less. Carrying value approximates fair value for these investments.

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

	2017			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury	$ 744	$ 59	$ 8	$ 795
U.S. government corporations and agencies	865	91	7	949
U.S. agency mortgage and asset-backed securities	15,155	524	179	15,500
Foreign governments	298	29	1	326
U.S. corporate	39,214	1,879	175	40,918
Foreign corporate	10,587	516	33	11,070
Non-agency residential mortgage-backed securities ("RMBS")	895	52	5	942
Non-agency commercial mortgage-backed securities	5,616	79	52	5,643
Non-agency asset-backed securities ("ABS")	7,050	118	29	7,139
Affiliated bonds	1,875	114	—	1,989
Total	$ 82,299	$ 3,461	$ 489	$ 85,271

NOTE 6 - INVESTMENTS (continued)

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

Common and Preferred Stocks

The carrying value of and change in unrealized gains (losses) generated by common and preferred stocks at December 31, 2017 and 2016 were as follows (in millions):

	2017		2016	
	Carrying Value	Unrealized Gain (Loss)	Carrying Value	Unrealized Gain (Loss)
Common stocks	$ 1,393	$ 117	$ 1,079	$ 46
Preferred stocks	13	—	11	—
Total	$ 1,406	$ 117	$ 1,090	$ 46

Mortgage Loans

The Company's mortgage loans are diversified by property type, location and borrower, and are collateralized. The maximum and minimum lending rates for new commercial mortgage loans funded during 2017 were 10.6% and 2.6% and funded during 2016 were 8.0% and 2.3%, respectively. The maximum percentage of any one commercial loan to the value of the collateral at the time of the loan, exclusive of insured or guaranteed or purchase money mortgages was 92.4% (average percentage was 52.4% and 53.0% at December 31, 2017 and 2016, respectively). The maximum percentage of any residential loan to the value of the collateral at the time of the loan was 80% (average percentage was 43.4% and 42.1% at December 31, 2017 and 2016, respectively). The Company has no significant credit risk exposure to any one individual borrower.

The majority of the Company's commercial mortgage loans were held in a form of participations with the carrying value of $13,520 million and $12,824 million at December 31 2017 and 2016, respectively. These loans were originated or acquired by New York Life. For residential mortgages, the carrying value of participations with New York Life are $5 million and $10 million at December 31, 2017 and 2016 respectively. Refer to Note 11- Related Party Transactions for more details.

NOTE 6 - INVESTMENTS (continued)

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

	2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total
Property Type:				
Office buildings	$ 3,995	29.3%	$ 3,963	30.5%
Apartment buildings	4,049	29.6	3,731	28.8
Retail facilities	3,615	26.5	3,603	27.7
Industrial	1,718	12.6	1,426	11.0
Hotels	216	1.6	177	1.4
Residential	35	0.3	54	0.4
Other	30	0.2	30	0.2
Total	$ 13,657	100.0%	$ 12,984	100.0%

	2017		2016	
	Carrying Value	% of Total	Carrying Value	% of Total
Geographic Location:				
South Atlantic	$ 3,396	24.9%	$ 3,404	26.2%
Central	3,338	24.4	2,865	22.1
Middle Atlantic	2,852	20.9	2,820	21.7
Pacific	2,830	20.7	2,688	20.7
New England	1,155	8.5	1,119	8.6
Other	86	0.6	88	0.7
Total	$ 13,657	100.0%	$ 12,984	100.0%

At December 31, 2017 and 2016, $4 million and $28 million, respectively, of mortgage loans were past due 90 days and over.

The Company maintains a watchlist of commercial loans that may potentially be impaired. The general guidelines analyzed to include commercial loans within the watchlist are loan-to-value ratio (“LTV”), asset performance such as debt service coverage ratio, lease rollovers, income/expense hurdles, major tenant or borrower issues, the economic climate, and catastrophic events, among others. Loans placed on the watchlist generally take priority in being revalued in the Company’s inspection/evaluation commercial loan program that revalues properties securing commercial loans. The guideline for analyzing residential loans occurs once a loan is 60 or more days delinquent. At that point, an appraisal or broker’s price opinion of the underlying asset is obtained.

NOTE 6 - INVESTMENTS (continued)

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 were as follows (in millions):

	2017							
Loan to Value % (By Class)	**Office Buildings**	**Apartment Buildings**	**Retail Facilities**	**Industrial**	**Hotels**	**Residential**	**Other**	**Total**
Above 95%	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
91% to 95%	—	—	—	—	—	—	—	—
81% to 90%	43	—	—	—	—	—	—	43
71% to 80%	32	253	161	4	—	5	—	455
below 70%	3,920	3,796	3,454	1,714	216	29	30	13,159
Total	$ 3,995	$ 4,049	$ 3,615	$ 1,718	$ 216	$ 34	$ 30	$ 13,657

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

At December 31, 2017 and 2016, impaired mortgage loans were as follows (in millions):

	2017					
Type	**Impaired Loans with Allowance for Credit Losses**	**Related Allowance**	**Impaired Loans Without Allowance for Credit Losses**	**Average Recorded Investment**	**Interest Income Recognized**	**Interest Income on a Cash Basis During the Period**
Residential	$ —	$ —	$ 4	$ 5	$ —	$ —
Commercial	—	—	—	5	—	—
Total	$ —	$ —	$ 4	$ 10	$ —	$ —

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

NOTE 6 - INVESTMENTS (continued)

Real Estate

At December 31, 2017 and 2016, the carrying value of the Company's real estate portfolio consisted of the following (in millions):

	2017	2016
Investment property	$ 56	$ 56
Acquired through foreclosure	1	2
Total real estate	$ 57	$ 58

At December 31, 2017 and 2016, the Company had $1 million and $2 million, respectively, of real estate that was held for sale, which consisted of residential properties acquired through foreclosure.

Limited Partnerships and Other Invested Assets

The carrying value of limited partnerships and other invested assets at December 31, 2017 and 2016 consists of the following (in millions):

	2017	2016
Affiliated non-insurance subsidiaries	$ 600	$ 573
Limited partnerships and limited liability companies	475	392
Other invested assets	109	87
LIHTC investments	87	116
Collateralized third-party loans	—	7
Total limited partnerships and other invested assets	$ 1,271	$ 1,175

Net investment income (loss) and change in unrealized gains for limited partnerships and other invested assets for the years ended December 31, 2017 and 2016 consisted of the following (in millions):

	2017		2016	
	Net Investment Income (Loss)	Unrealized Gains	Net Investment Income (Loss)	Unrealized Gains
Limited partnerships and limited liability companies	$ 39	$ 9	$ 22	$ 12
Affiliated non-insurance subsidiaries	63	27	56	33
Other invested assets	5	1	6	—
LIHTC investments	(36)	—	(32)	—
Total limited partnerships and other invested assets	$ 71	$ 37	$ 52	$ 45

Limited partnerships and limited liability companies primarily consist of limited partnership interests in mezzanine funds, wind energy investments, and other equity investments. Distributions other than those deemed a return of capital, are recorded as net investment income. Undistributed earnings are included in unrealized gains and losses in surplus.

Affiliated non-insurance subsidiaries consist of the Company's equity inv estment in MCF. Refer to Note 11 - Related Party Transactions for more details. Dividends are recorded in net investment income when declared and changes in the equity of subsidiaries are recorded in unrealized gains and losses in surplus.

NOTE 6 - INVESTMENTS (continued)

At both December 31, 2017 and 2016, the Company had $12 million of investments in limited partnerships and limited liability companies that were nonadmitted, and therefore, excluded from the amounts in the table above.

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

The Company receives tax credits related to its investments in LIHTC partnerships. The Company's unexpired tax credits on its investments in LIHTC expire within a range of 1 year to 12 years. During 2017 and 2016, the Company recorded amortization on these investments under the proportional amortized cost method of $36 million and $32 million, respectively. The Company recorded tax credits and other tax benefits on these investments of $34 million and $42 million for 2017 and 2016, respectively. The minimum holding period required for the Company's LIHTC investments extends from 4 years to 14 years. The LIHTC investments are periodically subject to regulatory reviews by housing authorities where the properties are located. The Company is not aware of any adverse issues related to such regulatory reviews. The Company's investment in LIHTC partnerships includes $17 million and $32 million of unfunded commitments at December 31, 2017 and 2016, respectively.

Assets on Deposit or Pledged as Collateral

At December 31, 2017 and 2016, the Company's restricted assets (including pledged collateral) were as follows ($ in millions):

	2017						
	Gross (Admitted and Nonadmitted) Restricted					Percentage	
Restricted Asset Category	Total General Account (G/A)	Total	Total From Prior Year	Increase (Decrease)	Total Admitted Restricted	Gross (Admitted and Non-admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Collateral held under security lending agreements	$ 675	$ 675	$ 675	$ —	$ 675	0.44%	0.44%
Subject to reverse repurchase agreements	223	223	298	$ (75)	$ 223	0.15%	0.15%
Letter stock or securities restricted as to sale - excluding Federal Home Loan Bank ("FHLB") capital stock	7	7	15	$ (8)	$ 7	0.00%	0.00%
FHLB capital stock	26	26	24	$ 2	$ 26	0.02%	0.02%
On deposit with states	4	4	4	—	$ 4	0.00%	0.00%
Total restricted assets	$ 935	$ 935	$ 1,016	$ (81)	$ 935	0.61%	0.61%

NOTE 6 - INVESTMENTS (continued)

	2016						
	Gross (Admitted and Nonadmitted) Restricted					Percentage	
Restricted Asset Category	Total General Account (G/A)	Total	Total From Prior Year	Increase (Decrease)	Total Admitted Restricted	Gross (Admitted and Non-admitted) Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
Collateral held under security lending agreements	$ 675	$ 675	$ 600	$ 75	$ 675	0.48%	0.48%
Subject to reverse repurchase agreements	298	298	298	—	298	0.21%	0.21%
Letter stock or securities restricted as to sale - excluding FHLB capital stock	15	15	5	10	15	0.01%	0.01%
FHLB capital stock	24	24	24	—	24	0.02%	0.02%
On deposit with states	4	4	4	—	4	0.00%	0.00%
Total restricted assets	$ 1,016	$ 1,016	$ 931	$ 85	$ 1,016	0.72%	0.72%

Loaned Securities and Repurchase Agreements

The Company participates in securities lending programs whereby securities, which are included in investments, are loaned to third parties for the purpose of enhancing income on securities held through reinvestment of cash collateral received upon lending. For securities lending transactions, the Company requires initial collateral, usually in the form of cash, equal to 102% of the fair value of domestic securities loaned. The borrower of the loaned securities is permitted to sell or repledge those securities. At both December 31, 2017 and 2016, the Company recorded cash collateral received under these agreements of $675 million, and established a corresponding liability for the same amount, which is included in amounts payable under security lending agreements in the accompanying Statutory Statements of Financial Position. For securities lending transactions, the carrying value of securities classified as bonds and on loan at December 31, 2017 was $638 million, with a fair value of $660 million. At December 31, 2016, the carrying value was $651 million, with a fair value of $659 million. The reinvested collateral is reported in bonds, cash equivalent and short-term investments in the accompanying Statutory Statements of Financial Position. The total fair value of all reinvested collateral positions was $684 million and $691 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, there were no separate accounts securities lending agreements.

The Company participates in dollar repurchase agreements to sell and repurchase securities. The purchaser of the securities is permitted to sell or repledge those securities. The liability for repurchasing the assets is included in borrowed money in accompanying Statutory Statements of Financial Position. At December 31, 2017 and 2016, there were no securities sold from the general account under dollar repurchase agreements.

At December 31, 2017, the carrying value and fair value of securities held under agreements to purchase and resell was $223 million, which were classified as tri-party reverse repurchase agreements and included with cash, cash equivalents and short-term investments. The securities had a weighted average maturity of two days and a weighted average yield of 1.4%. At December 31, 2016, the carrying value and fair value of securities held under agreements to purchase and resell was $298 million, which were classified as tri-party

NOTE 6 - INVESTMENTS (continued)

reverse repurchase agreements and included with cash, cash equivalents and short-term investments. The securities had a weighted average maturity of four days and a weighted average yield of 0.4%.

The Company did not enter into repurchase agreements during the years ending December 31, 2017 and 2016.

Collateral Received

At December 31, 2017 and 2016, assets received as collateral are reflected within the accompanying Statutory Statements of Financial Position, along with a liability to return such collateral were as follows ($ in millions):

	2017			
Cash Collateral Assets	**Book/ Adjusted Carrying Value**	**Fair Value**	**% or Assets to Total Assets (Admitted and Nonadmitted)**	**% of Assets to Total Admitted Assets**
Securities lending	$ 675	$ 675	0.6%	0.6%
Derivatives	203	203	0.2	0.2
Total	$ 878	$ 878	0.8%	0.8%

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

Cash received on securities lending transactions is then reinvested in short-term investments and bonds with various maturities.

	2017		2016	
Recognized Obligation to Return Collateral Asset	**Amount**	**% of Liability to Total Liabilities**	**Amount**	**% of Liability to Total Liabilities**
Amounts payable under securities lending agreements	$ 675	0.7%	$ 675	0.5%
Other liabilities (derivatives)	174	0.2	398	0.3
Separate accounts liabilities (derivatives)	29	—	2	—
Total	$ 878	0.9%	$ 1,075	0.8%

NOTE 6 - INVESTMENTS (continued)

Composition of Collateral Received

The following table presents the term and amounts of cash collateral received under securities lending agreements at December 31, 2017 and 2016 (in millions):

	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
General Account Securities Lending						
US. Treasury	$ 394	$ —	$ —	$ —	$ —	$ 394
U.S. government corporation and agencies	12	—	—	—	—	12
Foreign governments	5	—	—	—	—	5
U.S. corporate	226	—	—	—	—	226
Foreign corporate	38	—	—	—	—	38
Non-agency ABS	—	—	—	—	—	—
Total general account securities lending transactions	$ 675	$ —	$ —	$ —	$ —	$ 675

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

At December 31, 2017 and 2016, there were no separate account securities cash collateral received under dollar repurchase or securities lending agreements.

NOTE 6 - INVESTMENTS (continued)

Reinvestment of Collateral Received

The following tables present the term and aggregate fair value of all securities acquired from the reinvestment of all collateral received at December 31, 2017 and 2016 (in millions):

	2017		2016	
	General Account Securities Lending		General Account Securities Lending	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Open	$ —	—	$ —	$ —
30 days or less	409	409	392	392
31 to 60 days	31	31	70	70
61 to 90 days	5	5	16	16
91 to 120 days	—	—	5	5
121 to 180 days	14	14	7	7
181 to 365 days	19	19	8	8
1 to 2 years	77	77	48	48
2 to 3 years	93	94	90	90
Greater than 3 years	35	35	55	55
Total collateral reinvested	$ 683	$ 684	$ 691	$ 691

To help manage the mismatch of maturity dates between the security lending transactions and the related reinvestment of the collateral received, the Company invests in highly liquid assets.

Reverse Repurchase Agreement Transactions

The following table presents the original (flow) and residual maturity for tri-party reverse repurchase agreement transactions for the 4th quarter of 2017 (in millions):

	4th Quarter 2017 (Unaudited)			
	Minimum	Maximum	Average Daily Balance	Ending Balance
Open - No Maturity	$ —	$ —	$ —	$ —
Overnight	$ —	$ —	$ —	$ —
2 Days to 1 Week	$ 207	$ 264	$ 242	$ 223
> 1 Week to 1 Month	$ —	$ —	$ —	$ —
> 1 Month to 3 Months	$ —	$ —	$ —	$ —
> 3 Months to 1 Year	$ —	$ —	$ —	$ —
> 1 Year	$ —	$ —	$ —	$ —

At December 31, 2017, the Company did not have any defaulted reverse repurchase agreements.

NOTE 6 - INVESTMENTS (continued)

The following table presents the fair value of securities under tri-party reverse repurchase agreement transactions for the 4th quarter of 2017 (in millions):

	4th Quarter 2017 (Unaudited)			
	Minimum	Maximum	Average Daily Balance	Ending Balance
Fair value of securities				
Acquired under tri-party reverse repurchase	$ 207	$ 264	$ 242	$ 223

The following table presents the fair value of securities acquired under tri-party reverse repurchase agreements by NAIC designation for the 4th quarter of 2017 (in millions):

	4th Quarter 2017 (Unaudited)							
	None	NAIC 1	NAIC 2	NAIC 3	NAIC 4	NAIC 5	NAIC 6	Does not qualify as admitted
Bonds	$ —	$ 223	$ —	$ —	$ —	$ —	$ —	$ —
Loan-backed and structured securities	—	—	—	—	—	—	—	—
Total Assets	$ —	$ 223	$ —	$ —	$ —	$ —	$ —	$ —

The following table presents the collateral pledged for tri-party reverse repurchase agreements for the 4th quarter of 2017 (in millions):

	4th Quarter 2017 (Unaudited)			
	Minimum	Maximum	Average Daily Balance	Ending Balance
Cash	$ —	$ —	$ —	$ —
Securities (fair value)	$ 211	$ 269	$ 247	$ 227
Securities (statement value)	XXX	XXX	XXX	$ —
Nonadmitted Subset (statement value)	XXX	XXX	XXX	$ —

The following table presents the allocation of aggregate collateral pledged by remaining contractual maturity for the 4th quarter of 2017 (in millions):

	4th Quarter 2017 (Unaudited)	
	Amortized Cost	Fair Value
Overnight and continuous	$ —	$ —
30 days or less	$ —	$ —
31 to 90 days	$ —	$ —
> 90 days	$ 227	$ 227

NOTE 6 - INVESTMENTS (continued)

At December 31, 2017, the Company did not have a recognized receivable for return of collateral or a liability to return collateral.

Insurer Self-Certified Securities

The following represents securities for which the Company does not have all the information required for the NAIC to provide an NAIC designation, but for which the Company is receiving timely payments of principal and interest. These securities are referred to as "5* Securities" ($ in millions):

General Account	2017			2016		
Investments	Number of 5* Securities	Carrying Value	Estimated Fair Value	Number of 5* Securities	Carrying Value	Estimated Fair Value
Loan-backed and structured securities	2	$ 54	$ 54	—	—	—

The Company did not have any 5* securities in its separate accounts at December 31, 2017.

Wash Sales

In the course of the Company's investment management activities, securities may be sold and purchased within 30 days of the sale date to meet individual portfolio objectives and to achieve the ongoing rebalancing of exposure.

The details by NAIC designation of 3 or below, or unrated, of securities sold during the year ended December 31, 2017 and reacquired within 30 days of the sale date are as follows ($ in millions):

Description	NAIC Designation	Number of Transactions	Book Value of Securities Sold	Cost of Securities Repurchased	Gain/(Loss)
Bonds	NAIC 3	2	$ 3	$ 3	$ —
Bonds	NAIC 4	1	1	1	—
Bonds	NAIC 5	4	2	1	—
Bonds	NAIC 6	—	—	—	—
Preferred Stock	NAIC 3	1	1	1	—
Preferred Stock	NAIC 4	—	—	—	—
Preferred Stock	NAIC 5	—	—	—	—
Preferred Stock	NAIC 6	—	—	—	—
Common Stock		455	53	52	4
		463	$ 60	$ 58	$ 4

NOTE 7 - DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

For OTC-bilateral derivatives, the Company obtains collateral in accordance with the terms of credit support annexes ("CSAs") negotiated as part of the master agreements entered into with most OTC-bilateral counterparties. The CSA defines the terms under which collateral is transferred between the parties in order to mitigate credit risk arising from "in the money" derivative positions. The CSA requires that an OTC-bilateral counterparty post collateral to secure its anticipated derivative obligation, taking into account netting arrangements. In a few cases, these CSAs provide that the counterparties are not required to post collateral below a specified threshold; however the agreements governing these bilateral relationships also include credit contingent provisions whereby the threshold declines on a sliding scale with declines in the OTC-bilateral counterparties' ratings. In addition, certain of the Company's contracts require that if the Company's (or its counterparty's) credit rating were to fall below a specified rating assigned by a credit rating agency, the other party could request immediate payout on all transactions under the contracts or full collateralization of the positions thereunder. Cash collateral is invested in short-term investments. The aggregate fair value of all OTC-bilateral derivative instruments with credit-risk-related contingent features that are in a net liability position at December 31, 2017 was $29 million, for which the Company has posted collateral with a fair value of $22 million. If the credit contingent features had been triggered at December 31, 2017, the Company

NOTE 7 - DERIVATIVE INSTRUMENTS (continued)

estimates that it would not have had to post additional collateral for either a one notch downgrade in the Company's credit rating or for a downgrade that would trigger full collateralization.

The Company may be exposed to credit-related losses in the event that an OTC-bilateral counterparty fails to perform its obligations under its contractual terms. In contractual arrangements with OTC-bilateral, counterparties that do not include netting provisions in the event of default, credit exposure is limited to the positive fair value of derivatives at the reporting date. In contractual arrangements with OTC-bilateral counterparties that include netting provisions, in the event of default, credit exposure is limited to the net fair value, if positive, of all derivatives at the reporting date. At December 31, 2017, the Company held collateral for derivatives of $171 million, including $0 million of securities. Fair value of derivatives in a net asset position, net of collateral, was $0 million at December 31, 2017.

Interest Rate Risk Management

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

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

Interest rate (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 contract 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 value of foreign currency denominated assets from the risk of changes in foreign exchange rates.

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

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

NOTE 7 - DERIVATIVE INSTRUMENTS (continued)

Equity Risk Management

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

Hedge Effectiveness

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

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

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

The Company did not have any cash flow hedges of forecasted transactions except for cash flow hedges related to payments of variable interest on existing financial instruments, for the years ended December 31, 2017 and 2016.

NOTE 7 - DERIVATIVE INSTRUMENTS (continued)

The following tables present the notional amount, gross fair value and carrying value of derivative instruments that are qualifying and designated for hedge accounting, by type of hedge designation, and those that are not designated for hedge accounting at December 31, 2017 and 2016 (in millions):

		2017				
			Fair Value[2]		Carrying Value[3]	
Derivative type	Primary Risk Exposure	Notional Amount[1]	Asset	Liability	Asset	Liability
Derivatives qualifying and designated:						
Cash flow hedges:						
Foreign currency swaps	Currency	$ 68	$ 9	$ —	$ 9	$ —
Interest rate swaps	Interest	12	3	—	—	—
Total derivatives qualifying and designated		$ 80	$ 12	$ —	$ 9	$ —
Derivatives not designated:						
Foreign currency forwards	Currency	$ 117	$ 1	$ 1	$ 1	$ 1
Foreign currency swaps	Currency	2,594	162	83	162	83
Futures	Interest	14	—	—	—	—
Equity options	Equity	652	32	—	32	—
Interest rate options	Interest	11,048	4	—	4	—
Interest rate swaps	Interest	3,208	28	24	28	24
Total derivatives not designated		$ 17,633	$ 227	$ 108	$ 227	$ 108
Total derivatives		$ 17,713	$ 239	$ 108	$ 236	$ 108

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

NOTE 7 - DERIVATIVE INSTRUMENTS (continued)

		2016				
			Fair Value[2]		Carrying Value[3]	
Derivative type	Primary Risk Exposure	Notional Amount[1]	Asset	Liability	Asset	Liability
Derivatives qualifying and designated:						
Cash Flow Hedges:						
Foreign currency swaps	Currency	$ 68	$ 13	$ —	$ 13	$ —
Interest rate swaps	Interest	12	4	—	—	—
Total derivatives qualifying and designated		$ 80	$ 17	$ —	$ 13	$ —
Derivatives not designated:						
Foreign currency forwards	Equity	$ 114	$ 5	$ —	$ 5	$ —
Foreign currency swaps	Currency	2,287	325	7	325	7
Futures	Currency	8	—	—	—	—
Equity options	Interest	652	53	—	53	—
Interest rate options	Interest	14,891	16	—	16	—
Interest rate swaps	Interest	3,287	28	29	28	29
Total derivatives not designated		$ 21,239	$ 427	$ 36	$ 427	$ 36
Total derivatives		$ 21,319	$ 444	$ 36	$ 440	$ 36

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

Cash Flow Hedges

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

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

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

	2017	2016	2017	2016	2017	2016
Derivative Type	Gain (Loss) Recognized in Surplus[1]		Gain (Loss) Recognized in Net Realized Capital Gains (Losses)		Gain (Loss) Recognized in Net Investment Income	
Foreign currency swaps	$ (1)	$ (16)	(4)	10	$ 1	$ 1
Interest rate swaps	—	—	—	—	—	1
Total	$ (1)	$ (16)	$ (4)	$ 10	$ 1	$ 2

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

NOTE 7 - DERIVATIVE INSTRUMENTS (continued)

Derivatives Not Designated

The following table provides the classification and amount of gains and losses on derivative instruments not designated for hedge accounting for the years ended December 31, 2017 and 2016 (in millions):

Derivative Type	2017	2016	2017	2016	2017	2016
	Gain (Loss) Recognized in Surplus[1]		Gain (Loss) Recognized in Net Realized Capital Gains (Losses)		Gain (Loss) Recognized in Net Investment Income	
Equity options	$ (15)	$ 3	$ —	$ (6)	$ (7)	$ (10)
Foreign currency forwards	(5)	3	(5)	1	—	—
Foreign currency swaps	(239)	127	10	(9)	30	26
Futures	—	—	—	—	—	—
Interest rate options	(3)	13	—	—	(8)	(15)
Interest rate swaps	5	(7)	—	—	19	21
Total	$ (257)	$ 139	$ 5	$ (14)	$ 34	$ 22

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

NOTE 8 - SEPARATE ACCOUNTS

Separate Accounts Activity

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

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

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

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

NOTE 8 - SEPARATE ACCOUNTS (continued)

The assets legally and not legally insulated from the general account at December 31, 2017 and 2016 are attributed to the following products/transactions (in millions):

	2017		2016	
Product/Transaction	**Legally Insulated Assets**	**Separate Accounts Assets (Not Legally Insulated)[1]**	**Legally Insulated Assets**	**Separate Accounts Assets (Not Legally Insulated)[2]**
VUL insurance products guaranteed	$ 240	$ 9	$ 249	$ 7
VUL insurance products non-guaranteed	7,424	1	6,482	2
VA products non-guaranteed	27,637	30	24,290	33
UL insurance products guaranteed	5,904	41	5,799	(4)
Total	$ 41,205	$ 81	$ 36,820	$ 38

[1] Separate accounts assets classified as not legally insulated support $30 million of remittances and items not allocated and other transfers to the general account due or accrued (net), $11 million of payable for securities, $36 million of derivatives, $3 million of other liabilities and $1 million of surplus.

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

Guaranteed Separate Accounts

The Company maintains four guaranteed separate accounts for universal life insurance policies and one guaranteed separate accounts for a private placement variable universal life policy, with assets of $6,195 million and $6,051 million at December 31, 2017 and 2016, respectively. These accounts provide a guarantee of principal and interest with a market value adjustment imposed upon certain surrenders. A transfer adjustment charge is imposed upon certain transfers. Interest rates on these contracts may be adjusted periodically. The assets of these separate accounts are stated at amortized cost up to the value of policyholder reserves and at fair value thereafter. Certain derivatives not qualifying for hedge accounting are stated at fair value.

Non-Guaranteed Separate Accounts

The Company maintains non-guaranteed separate accounts for its VA and VUL products, some of which are registered with the Securities and Exchange Commission. Assets in non-guaranteed separate accounts were $35,092 million and $30,807 million at December 31, 2017 and 2016, respectively. The assets of these separate accounts represent investments in shares of New York Life sponsored MainStay VP Series Funds Trust and other non-proprietary funds.

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

NOTE 8 - SEPARATE ACCOUNTS (continued)

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

Year		Amount
2017	$	51
2016	$	49
2015	$	46
2014	$	39
2013	$	32

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

Year		Amount
2017	$	7
2016	$	9
2015	$	7
2014	$	4
2013	$	5

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

Information regarding the separate accounts of the Company for the years ended December 31, 2017 and 2016 is as follows (in millions):

	2017			
	Non-Indexed Guarantee Less than / Equal to 4%	Non-Indexed Guarantee More than 4%	Non-Guaranteed Separate Accounts	Total
Premiums, considerations or deposits	$ 6	$ —	$ 1,942	$ 1,948
Reserves at 12/31:				
For accounts with assets at:				
Fair value	$ —	$ —	$ 34,098	$ 34,098
Amortized cost	5,658	476	—	6,134
Total reserves	$ 5,658	$ 476	$ 34,098	$ 40,232
By withdrawal characteristics:				
With fair value adjustment	$ 5,658	$ 476	$ —	$ 6,134
At fair value	—	—	34,098	34,098
Total reserves	$ 5,658	$ 476	$ 34,098	$ 40,232

NOTE 8 - SEPARATE ACCOUNTS (continued)

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

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

	2017	2016
Transfers as reported in the Separate Accounts Statement:		
Transfers to separate accounts	$ 1,948	$ 1,477
Transfers from separate accounts	(1,705)	(1,176)
Net transfers to separate accounts	243	301
Reconciling adjustment:		
Reinsurance ceded	(3)	(4)
Net transfers as reported in the Company's Statutory Statements of Operations	$ 240	$ 297

NOTE 9 - FAIR VALUE MEASUREMENTS

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

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

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

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

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

Determination of Fair Value

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

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

The following tables present the carrying amounts and estimated fair value of the Company's financial instruments at December 31, 2017 and 2016 (in millions):

	2017					
	Fair Value	Carrying Value	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 85,271	$ 82,299	$ —	$ 82,096	$ 3,175	$ —
Preferred stocks	19	13	—	2	17	—
Common stocks[1]	1,393	1,393	1,354	7	32	—
Mortgage loans	13,939	13,657	—	—	13,939	—
Cash, cash equivalents and short-term investments	2,211	2,211	151	2,060	—	—
Derivatives	239	236	—	235	4	—
Derivatives - collateral	22	22	—	22	—	—
Other invested assets[1]	228	196	—	89	139	—
Investment income due and accrued	692	692	—	692	—	—
Separate accounts assets	41,475	41,286	34,893	5,535	1,047	—
Total assets	$ 145,489	$ 142,005	$ 36,398	$ 90,738	$ 18,353	$ —
Liabilities:						
Annuities certain	$ 868	$ 837	$ —	$ —	$ 868	$ —
Derivatives	108	108	—	108		—
Derivatives - collateral	174	174	—	174		—
Amounts payable under securities lending	675	675	—	675	—	—
Separate accounts liabilities - derivatives	36	36	—	36		—
Total liabilities	$ 1,861	$ 1,830	$ —	$ 993	$ 868	$ —

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

	2016					
	Fair Value	Carrying Value	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 79,240	$ 77,313	$ —	$ 76,128	$ 3,112	$ —
Preferred stocks	14	11	—	—	14	—
Common stocks[1]	1,079	1,079	1,046	5	28	—
Mortgage loans	13,209	12,984	—	—	13,209	—
Cash, cash equivalents and short-term investments	1,923	1,923	12	1,911	—	—
Derivatives	444	440	—	429	15	—
Derivatives - collateral	2	2	—	2	—	
Other invested assets[1]	245	203	—	63	182	—
Collateralized third-party commercial loans	7	7	—	—	7	—
Investment income due and accrued	653	653	—	653	—	—
Separate accounts assets	37,014	36,858	30,481	5,478	1,055	—
Total assets	$ 133,830	$ 131,473	$ 31,539	$ 84,669	$ 17,622	$ —
Liabilities:						
Annuities certain	$ 817	$ 790	$ —	$ —	$ 817	$ —
Derivatives	36	36	—	36	—	—
Derivatives - collateral	398	398	—	398	—	—
Amounts payable under securities lending	675	675	—	675	—	—
Separate accounts liabilities - collateral	2	2	—	2	—	—
Separate accounts liabilities - derivatives	7	5	—	5	2	—
Total liabilities	$ 1,935	$ 1,906	$ —	$ 1,116	$ 819	$ —

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

Bonds

Bonds reported as Level 1 represent investments in certain exchange traded funds, which are allowed to be reported as bonds per the SVO instructions. These assets are priced based on unadjusted quoted prices in an active market. Securities priced using a pricing service are generally classified as Level 2. The pricing service generally uses an income-based valuation approach using a discounted cash-flow model or it may use 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 recognized, reliable, and well regarded benchmarks by participants in the financial services industry which represent the broader U.S. public bond markets. The spreads derived from each matrix are adjusted for liquidity. The liquidity premium is standardized and based on market transactions.

Note 9 - FAIR VALUE MEASUREMENTS (continued)

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

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

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

Included in bonds is an affiliated bond from MCF with a carrying value of $1,875 million and a fair value of $1,989 million million at December 31, 2017, and a carrying value of $1,780 million and a fair value of $1,816 million at December 31, 2016. The fair value of this security is calculated internally and may include inputs that may not be observable. Therefore, this security is classified as Level 3.

Preferred Stocks

Preferred stocks valued using prices from third-party pricing services generally use a discounted cash flow model or a market approach to arrive at the security's fair value and are classified as Level 2. Preferred stocks classified as Level 3 are valued based on internal valuations where significant inputs are deemed to be unobservable.

Common Stocks

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

Mortgage Loans

The estimated fair value of mortgage loans is determined 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 and it takes into account property type, LTV and remaining term of each loan. The spread is a significant component of the pricing inputs. These investments are classified as Level 3.

Note 9 - FAIR VALUE MEASUREMENTS (continued)

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

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

Derivatives

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

Derivatives - Collateral

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

Other Invested Assets

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

Separate Accounts Assets

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

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

Category of Investment	Investment Strategy	Fair Value at 12/31/2017	Unfunded Commitments at 12/31/2017	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 50	$ —	Quarterly, Monthly	90 days or less
Hedge Fund	Sector Investing	$ 23	$ —	Monthly	90 days or less
Hedge Fund	Long/Short Equity	$ 2	$ —	Monthly	90 days or less

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

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

Category of Investment	Investment Strategy	Fair Value at 12/31/2017	Unfunded Commitments 12/31/17	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 182	$ —	Semi-annual, Quarterly	More than 90 days

Category of Investment	Investment Strategy	Fair Value at 12/31/2016	Unfunded Commitments 12/31/16	Redemption Frequency	Redemption Notice Period
Hedge Fund	Multi-Strategy	$ 214	$ —	Annual, Semi-annual, Quarterly	More than 90 days

Deposit Fund Contracts

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

Borrowed Money

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

Amounts Payable Under Securities Lending

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

Separate Accounts Liabilities – Derivatives

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

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

	2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets at fair value				
Bonds				
U.S. corporate	$ —	$ 6	$ —	$ 6
Non-agency commercial mortgage-backed securities	—	—	—	—
Non-agency RMBS	—	—	—	—
Non-agency ABS	—	—	1	1
Total bonds	—	6	1	7
Common stocks	1,354	7	32	1,393
Derivative assets	—	223	4	227
Separate accounts assets	34,836	77	184	35,097
Total assets at fair value	$ 36,190	$ 313	$ 221	$ 36,724
Liabilities at fair value				
Derivative liabilities	$ —	$ 108	$ —	$ 108
Separate accounts liabilities - derivatives[1]	—	7	—	7
Total liabilities at fair value	$ —	$ 115	$ —	$ 115

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

	2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets at fair value				
Bonds				
U.S. corporate	$ —	$ 5	$ —	$ 5
Non-agency commercial mortgage-backed securities	—	2	—	2
				—
Non-agency ABS	—	5	2	7
Total bonds	—	12	2	14
Common stocks	1,046	5	28	1,079
Derivative assets	—	411	15	426
Separate accounts assets	30,444	150	223	30,817
Total assets at fair value	$ 31,490	$ 578	$ 268	$ 32,336
Liabilities at fair value				
Derivative liabilities	$ —	$ 36	$ —	$ 36
Separate accounts liabilities - derivatives[1]	—	5	—	5
Total liabilities at fair value	$ —	$ 41	$ —	$ 41

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

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

	2017									
	Balance at 1/1	Transfers into Level 3	Transfers out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Balance at 12/31
Bonds:										
Non-agency RMBS	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-agency ABS	2	—	(1)	—	—	—	—	—	—	1
Total bonds	2	—	(1)	—	—	—	—	—	—	1
Common stocks	28	3	—	2	(1)	3	—	(4)	—	32
Derivatives	15	—	—	(8)	(3)	—	—	—	—	4
Separate accounts assets[1]	223	—	—	10	—	6	—	(55)	—	184
Total	$ 268	$ 3	$ (1)	$ 4	$ (4)	$ 9	$ —	$ (59)	$ —	$ 221

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

	2016									
	Balance at 1/1	Transfers into Level 3	Transfers out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Balance at 12/31
Bonds:										
Non-agency RMBS	$ 1	$ —	$ (1)	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-agency ABS	2	—	—	—	—	—	—	—	—	2
Total bonds	3	—	(1)	—	—	—	—	—	—	2
Common stocks	26	—	—	—	—	2	—	—	—	28
Derivatives	—	15	—	(14)	13	1	—	—	—	15
Separate accounts assets[1]	273	9	—	14	(10)	6	—	(69)	—	223
Total	$ 302	$ 24	$ (1)	$ —	$ 3	$ 9	$ —	$ (69)	$ —	$ 268

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

Transfers Between Levels

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

Transfers between Levels 1 and 2

During the years ended December 31, 2017 and 2016, there were no transfers between Levels 1 and 2.

Transfers into and out of Level 3

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

Transfers into Level 3 totaled $3 million for the year ended December 31, 2017, which primarily relates to common stock securities that were moved from Level 1 to Level 3 due to limited market observability on certain inputs used in the valuation model. Transfers out of Level 3 totaled $1 million, which primarily relates to non agency RMBS & non agency ABS million that were measured at fair value at the beginning of the period and measured at amortized cost at the end of the period..

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

Note 9 - FAIR VALUE MEASUREMENTS (continued)

The table below presents the balances of Level 3 assets measured at fair value with their corresponding pricing sources at December 31, 2017 and 2016 (in millions):

	2017		
	Internal [1]	**External [2]**	**Total**
Assets at fair value			
Bonds:			
Non-agency RMBS	$ —	$ —	$ —
Non-agency ABS	1	—	1
Total bonds	1	—	1
Common stocks	28	1	29
Mutual fund	—	3	3
Derivative assets	—	4	4
Separate accounts assets	—	182	182
Total assets at fair value	$ 29	$ 190	$ 219

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

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

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

There were no liabilities measured at fair value at December 31, 2017 and 2016.

Note 9 - FAIR VALUE MEASUREMENTS (continued)

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

	2017					
	Fair Value (in millions)		Valuation Techniques	Unobservable Input	Range	Weighted Average
Assets:						
Non-agency ABS	$	1	Discounted Cash Flow	Discount Rate	9.9	9.9%
Common stocks	$	1	Market Comparable	Revenue Multiple	4.4x	

	2016					
	Fair Value (in millions)		Valuation Techniques	Unobservable Input	Range	Weighted Average
Assets:						
Common stocks	$	3	Market comparable	Price to book multiple	0.6X	
			Market comparable	Revenue multiple	9.5X	

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.

Asset Backed Securities

The asset backed security included in the table above relates to a private deal. For this security, a discounted cash flow calculation is used, the discount rate is calculated internally based on unobservable data and assumptions. A significant increase in the discount rate used to perform the discounted cash flow calculation for these securities, would significantly decrease the fair value of these securities. The opposite effect would occur if there were a significant decrease in the discount rate used.

Common Stocks

The Company's Level 3 common stock investments mostly relate to the Company's holdings in the FHLB of Pittsburgh as described in Note 15 - Commitments and Contingencies. As prescribed in the FHLB of Pittsburgh capital plan, the par value of the capital stock is $100 and all capital stock is issued, redeemed, repurchased or transferred at par value. Since there is not an observable market for the FHLB of Pittsburgh stock are held at cost and, these securities have been classified as Level 3. The cost basis of the FHLB of NY stock was $26 million and $24 million as of December 31, 2017 and 2016, respectively. For the other common stock investments included in Level 3, the valuation is performed using market comparables such as revenue and price to book multiples. An increase in the value of these inputs would result in an increase in fair value with the reverse being true for decreases in the value of these inputs.

NOTE 10 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES

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

	2017	2016
Bonds[1]	$ 3,193	$ 3,099
Mortgage loans	582	559
Common stocks - unaffiliated	37	23
Real estate	4	4
Limited partnerships and other invested assets	71	52
Policy loans	53	57
Short-term investments	14	11
Derivative instruments	35	24
Other	8	10
Gross investment income	3,997	3,839
Investment expenses	(146)	(132)
Net investment income	3,851	3,707
Net gain from separate accounts	50	37
Amortization of IMR	33	51
Net investment income, including IMR	$ 3,934	$ 3,795

(1) Prepayment income of $71 million is included in bonds in the net investment income chart above.

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

Bond Prepayments

The following table shows the Company's securities redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions) and the aggregate amount of investment income generated as a result of a prepayment and/or acceleration fee.

	General Account	Separate Account
Number of cusips	190	95
Aggregate amount of investment income	$ 71	$ 5

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

For the years ended December 31, 2017 and 2016, realized capital gains and losses on sales including OTTI were as follows (in millions):

	2017		2016	
	Gains	Losses	Gains	Losses
Bonds	$ 149	$ 105	$ 109	$ 179
Common stocks - unaffiliated	96	39	40	42
Other long-term investments	—	13	2	39
Derivative instruments	16	14	28	32
Other	—	—	3	—
	$ 261	$ 171	$ 182	$ 292
Net realized capital gains before tax and transfers to the IMR	$ 90		$ (110)	
Less:				
Capital gains tax expense	16		(21)	
Net realized capital gains after tax transferred to IMR	40		23	
Net realized capital gains (losses) after tax and transfers to the IMR	$ 34		$ (112)	

Proceeds from investments in bonds sold were $4,015 million and $3,236 million for the years ended December 31, 2017 and 2016, respectively. Gross gains of $117 million and $84 million in 2017 and 2016, respectively, and gross losses of $43 million and $39 million in 2017 and 2016, respectively, were realized on these sales. The Company computes gains and losses on sales under the specific identification method.

The following table provides a summary of OTTI losses included as realized capital losses for the years ended December 31, 2017 and 2016 (in millions):

	2017	2016
Bonds	$ 42	$ 106
Other long-term investments	12	39
Common and preferred stocks	1	5
Total	$ 55	$ 150

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

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

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

	2017					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses[1]
Bonds:						
U.S. Treasury	$ 342	$ 2	$ 199	$ 6	$ 541	$ 8
U.S. government corporations and agencies	32	—	214	7	246	7
U.S. agency mortgage and asset-backed securities	2,528	26	3,337	152	5,865	178
Foreign governments	49	—	26	1	75	1
U.S. corporate	5,145	53	3,550	122	8,695	175
Foreign corporate	928	12	823	21	1,751	33
Non-agency residential mortgage-backed securities	21	—	136	5	157	5
Non-agency commercial mortgage-backed securities	1,223	9	931	44	2,154	53
Non-agency asset-backed securities	1,464	9	731	21	2,195	30
Total bonds	11,732	111	9,947	379	21,679	490
Equity securities (unaffiliated):						
Common stocks	281	8	2	1	283	9
Preferred stocks	1	—	—	—	1	—
Total equity securities	282	8	2	1	284	9
Total	$ 12,014	$ 119	$ 9,949	$ 380	$ 21,963	$ 499

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

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

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

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

At December 31, 2017, the gross unrealized loss on bonds and equity securities was comprised of approximately 2,820 and 185 different securities, respectively, which are included in the table above. Of the total amount of bond unrealized losses, $426 million or 87% is related to unrealized losses on investment grade securities and $64 million or 13% is related to below investment grade securities. At December 31, 2016, the gross unrealized loss on bonds and equity securities was comprised of approximately 3,153 and 327 different securities, respectively, which are included in the table above. Of the total amount of bond unrealized losses, $809 million, or 90%, is related to investment grade securities and $89 million, or 10%, is related to below investment grade securities. Investment grade is defined as a security having a credit rating from the NAIC of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's; or a comparable internal rating if an externally provided rating is not available.

The amount of gross unrealized losses for bonds where fair value had declined by 20% or more of the amortized cost, totaled $44 million. The period of time that each of these securities has continuously been below amortized cost by 20% or more consists of $5 million for six months or less, $0 million for greater than six months through 12 months, and $38 million for greater than 12 months. In accordance with the Company's impairment policy, the Company performed quantitative and qualitative analysis to determine if the decline was temporary. For those securities where the decline was considered temporary, the Company did not recognize an impairment when it had the ability and intent to hold until recovery.

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

The change in unrealized capital gain (losses) for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Change in unrealized capital gains (losses) on investments:		
Bonds	$ 2	$ —
Common stocks (unaffiliated)	89	56
Derivative instruments	(258)	124
Other invested assets	37	45
Total change in unrealized capital (losses) gains on investments	(130)	225
Change in unrealized foreign exchange capital gains (losses) on investments:		
Bonds	220	(189)
Common stocks (unaffiliated)	28	(10)
Cash, cash equivalents and short-term investments	(1)	5
Other invested assets	1	—
Total change in unrealized foreign exchange capital losses on investments	248	(194)
Capital gains tax	(18)	1
Total change in unrealized capital gains, net of tax	$ 100	$ 32

NOTE 11 - RELATED PARTY TRANSACTIONS

During 2017 and 2016, the Company received dividend distributions from MCF of $63 million and $56 million, respectively.

During 2017, the Company paid a dividend of $275 million to its parent, New York Life.

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

On December 31, 2015, the Company and New York Life entered into a note funding agreement with MCF (the “MCF Note Agreement”) and acquired a variable funding note issued by MCF thereunder (the “Note”). The Note, which is reported as a bond in the accompanying Statutory Statements of Financial Position, had an outstanding balance for the Company of $1,875 million and $1,780 million at December 31, 2017 and 2016, respectively. During 2017 and 2016, the Company recorded interest income from MCF under the MCF

NOTE 11 - RELATED PARTY TRANSACTIONS (continued)

Note Agreement of $79 million and $75 million, respectively. Pursuant to the MCF Note Agreement and variable funding note issued thereunder, the Company and New York Life may provide an aggregate of up to $4,700 million in funding to MCF for lending and equity investment commitments, as well as for business expenses. All outstanding advances made to MCF under the MCF Note Agreement, together with unpaid interest thereon, will be due in full on December 31, 2025.

In connection with the acquisition of an office building by REEP-OFC Westory DC, LLC, an indirectly wholly-owned subsidiary of New York Life, the Company provided a first mortgage loan in the principal amount of $83 million to REEP-OFC Westory DC, LLC. The interest-only loan, expected to be due and payable on August 10, 2022, was paid off in October 2017. For each of the years ended December 31, 2017 and 2016, interest earned amounted to $3 million.

In connection with the acquisition of an office building by REEP-OFC 2300 Empire LLC and a pledge of an unleveraged equity interest in the owner of Retreat at Seven Bridges, an existing multifamily property, the Company provided a first mortgage loan in the principal amount of $83 million to REEP-OFC 2300 Empire LLC and REEP-MF Woodridge, IL LLC. The mortgage loan's maturity date is August 10, 2022 with fixed rate of 3.75% per annum. For the year ended December 31, 2017, interest earned amounted to $1 million.

In connection with a $150 million acquisition of a leased fee interest containing an office building and related improvements and encumbered by a ground lease, located at 1372 Broadway, New York, New York, by New York Life (73.8% interest) and the Company (26.2% interest), the Company and New York Life entered into a Tenancy-in-Common Agreement dated as of June 11, 2012 which agreement sets forth the terms that govern, in part, each entity’s interest in the property. For each of the years ended December 31, 2017 and 2016, income earned amounted to approximately $3 million.

The Company sold various corporate owned life insurance (“COLI”) policies to New York Life for the purpose of informally funding certain benefits for New York Life employees and agents. These policies were issued on the same terms as policies sold to unrelated customers. At December 31, 2017 and 2016, policyholder reserve balances for these policies amounted to $3,974 million and $3,729 million, respectively, and were included in the policy reserves and separate accounts liabilities in the accompanying Statutory Statements of Financial Position.

The Company has also issued various COLI policies to the Voluntary Employees’ Beneficiary Association (“VEBA”) trusts, which were trusts formed for the benefit of New York Life’s retired employees and agents. At December 31, 2017 and 2016, policyholder reserve balances for these policies amounted to approximately $411 million and $364 million, respectively, and were included in policy reserves and separate accounts liabilities in the accompanying Statutory Statements of Financial Position.

The Company is the assumed obligor for certain structured settlement agreements with unaffiliated insurance companies, beneficiaries and other non-affiliated entities. To satisfy its obligations under these agreements, the Company owns all rights, title and interest in and to certain structured settlement annuity contracts issued by New York Life. The obligations are based upon the actuarially determined present value of expected future payments. Interest rates used in establishing such obligations ranged from 3.5% to 7.75%. The Company has directed New York Life to make the payments under the annuity contracts directly to the beneficiaries under the structured settlement agreements. At December 31, 2017 and 2016, the carrying value of the interest in annuity contracts and the corresponding obligations under structured settlement agreements amounted to $8,229 million and $7,448 million, respectively.

NOTE 11 - RELATED PARTY TRANSACTIONS (continued)

The Company has sold certain annuity contracts to New York Life in order that New York Life may satisfy its third-party obligations under certain structured settlement agreements. Interest rates used in establishing such obligations ranged from 5.5% to 8.75%. The Company has been directed by New York Life to make the payments under the annuity contracts directly to the beneficiaries under these structured settlement agreements. At both December 31, 2017 and 2016, the policyholder reserves related to these contracts amounted to $149 million, and are included in policy reserves in the accompanying Statutory Statements of Financial Position.

The Company was compensated for each New York Life term policy or term rider that was converted to a universal life policy issued by the Company without any additional underwriting. For the years ended December 31, 2017 and 2016, the Company received $19 and $23 million, respectively from New York Life for these services.

New York Life provides the Company with certain services and facilities including, but not limited to, accounting, tax and auditing services; legal services; actuarial services; electronic data processing operations and communications operations. New York Life charges the Company for the identified costs associated with these services and facilities under the terms of a service agreement between New York Life and the Company. For the years ended December 31, 2017 and 2016, the fees incurred associated with these services and facilities, amounted to $968 million and $820 million, respectively, and are reflected in operating expenses and net investment income in the accompanying Statutory Statements of Operations.

New York Life Investment Management LLC (“NYLIM”), an indirect wholly-owned subsidiary of New York Life, provides the Company with certain services and facilities including, but not limited to, investment management and other administrative services. NYLIM charges the Company for the identified costs associated with these services and facilities under the terms of a service agreement between NYLIM and the Company. For the years ended December 31, 2017 and 2016, the fees incurred associated with these services and facilities amounted to $14 million and $15 million, respectively.

The Company is a party to an investment advisory agreement with NYL Investors, as amended from time to time, whereby NYL Investors provides investment advisory and administrative services to the Company. For the years ended December 31, 2017 and 2016, the total cost for these services amounted to $125 million and $119 million, respectively, which is included in the costs of services billed by New York Life to the Company. These costs are included in net investment income in the accompanying Statutory Statement of Operations.

In addition, NYLIM has a management agreement with the MainStay VP Funds Trust (“the Fund”), a registered investment company whose shares are sold to various separate accounts of the Company. NYLIM, the administrator of the Fund, and the Company have entered into an agreement regarding administrative services to be provided by the Company. Under the terms of the agreement, NYLIM pays the Company administrative fees for providing services to the Fund. For the years ended December 31, 2017 and 2016, the Company recorded fee income from NYLIM of $37 million and $34 million, which is included in other income in the accompanying Statutory Statements of Operations.

The Company has a variable product distribution agreement with NYLIFE Distributors LLC (“NYLIFE Distributors”), an indirect wholly-owned subsidiary of New York Life, appointing NYLIFE Distributors as the underwriter and/or wholesale distributor of the Company’s variable product policies. For the years ended December 31, 2017 and 2016, the Company received service fees of $44 million and $39 million, respectively, under a 12b-1 Plan Services Agreement, in consideration for providing 12b-1 Plan services attributable to the variable products.

NOTE 11 - RELATED PARTY TRANSACTIONS (continued)

The Company has an agreement with NYLIFE Securities LLC ("NYLIFE Securities"), an indirect wholly-owned subsidiary of New York Life, under which registered representatives of NYLIFE Securities solicit sales of the Company's variable product policies. For each of the years ended December 31, 2017 and 2016, the Company incurred commission expense to NYLIFE Securities' registered representatives of $119 million under this agreement.

The Company has a service fee agreement with NYLIFE Securities, whereby NYLIFE Securities charges the Company a fee for management and supervisory services rendered in connection with variable life and variable annuity sales and in-force business. For the years ended December 31, 2017 and 2016, the fees incurred for these services amounted to $43 million and $48 million, respectively, under this agreement.

At December 31, 2017 and 2016, the Company reported a net amount of $294 million and $197 million, respectively, as amounts payable to parent and affiliates. The terms of the underlying agreements generally require that these amounts be settled in cash within 90 days.

NOTE 12 - INSURANCE LIABILITIES

Policy reserves, deposit funds and policy claims at December 31, 2017 and 2016 were as follows (in millions):

	2017	2016
Life insurance reserves	$ 21,756	$ 20,299
Annuity reserves and supplementary contracts with life contingencies	64,554	60,139
Total policy reserves	86,310	80,438
Deposit funds	1,176	1,106
Policy claims	198	151
Total policy reserves, deposit funds and policy claims	$ 87,684	$ 81,695

Life Insurance Reserves

Reserves for life insurance policies are maintained principally using the 1958 Commissioners' Extended Term Mortality Table and the 1958, 1980 and 2001 Commissioners' Standard Ordinary Mortality Tables under the Commissioners' Reserve Valuation Method or Net Level Premium Reserve Method with valuation interest rates ranging from 2.0% to 4.5%. Reserves for universal life secondary guarantee products with multiple sets of cost of insurance are determined using the methodology outlined in the November 2011 Life Actuarial Task Force Statement.

In 2017, there were no changes in reserve basis.

The Company has established policy reserves (excluding the effects of reinsurance) on contracts issued January 1, 2001 and later that exceed the minimum amounts determined under Appendix A-820, "Minimum Life and Annuity Reserve Standards" of NAIC SAP by approximately $284 million and $306 million at December 31, 2017 and 2016, respectively.

At December 31, 2017 and 2016, the Company's liabilities for GMDB reserves, which are associated with certain variable products, amounted to $19 million and $22 million, respectively, and were recorded in policy reserves in the accompanying Statutory Statements of Financial Position.

NOTE 12 - INSURANCE LIABILITIES (continued)

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

At December 31, 2017 and 2016, the Company had $12,177 million and $12,284 million, respectively, of insurance in-force for which the gross premiums were less than the net premiums according to the standard of valuation set by the State of Delaware.

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

Annuity Reserves and Supplementary Contracts with Life Contingencies

Reserves for single premium immediate annuities and guaranteed future income annuities are based principally on A2000, 2012 IAR and the Commissioners' Annuity Reserve Valuation Method ("CARVM"), with assumed interest rates ranging from 3.5% to 6.0%. Reserves for fixed deferred annuities and supplementary contracts involving life contingencies involving mortality risk are based principally on 1971 Individual Annuity Mortality, 1983 Table A, A2000, 2012 IAR and the CARVM, with assumed interest rates ranging from 3.5% to 10.0%. Reserves for variable deferred annuities are based principally on 1994 Variable Annuity GMDB Mortality Table and the Variable Annuity Commissioners' Annuity Reserve Valuation Method, with assumed interest rates ranging from 3.5% to 8.25%. Generally, owners of the Company's deferred annuities are able, at their discretion, to withdraw funds from their policies. For some policies, the withdrawals are subject to surrender charges in the early years.

At December 31, 2017 and 2016, the Company's liabilities for GMDB and GMAB reserves, which are associated with certain variable products, amounted to $17 million and $24 million, respectively, and were recorded in policy reserves in the accompanying Statutory Statements of Financial Position.

At December 31, 2017 and 2016, there were no changes to reserve basis.

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

Deposit Funds

Deposit funds at December 31, 2017 and 2016 were as follows (in millions):

	2017	2016
Fixed period annuities	$ 837	$ 791
Supplemental contracts without life contingencies	310	279
Continued interest accounts	29	36
Total deposit funds	$ 1,176	$ 1,106

NOTE 12 - INSURANCE LIABILITIES (continued)

Withdrawal Characteristics of Annuity Reserves and Deposit Funds

The following table reflects the withdrawal characteristics of annuity reserves and deposit fund liabilities at December 31, 2017 and 2016 ($ in millions):

	2017			
	General Account	Separate Accounts Non-guaranteed	Total	% of Total
Subject to discretionary withdrawal:				
With fair value adjustment	$ 21,208	$ —	$ 21,208	23%
At book value less current surrender charge of 5% or more	6,635	—	6,635	7%
At fair value	—	26,748	26,748	29%
Total with adjustment or at fair value	27,843	26,748	54,591	59%
At book value without adjustment	23,560	—	23,560	25%
Not subject to discretionary withdrawal	14,310	—	14,310	16%
Total annuity reserves and deposit fund liabilities	$ 65,713	$ 26,748	$ 92,461	100%

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

NOTE 13 - REINSURANCE

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk and to be able to issue life insurance policies in excess of its retention limits. Currently, the Company reinsures the mortality risk on new life insurance policies on a quota-share yearly renewable term basis for many products except for custom guarantee universal life, survivorship custom guarantee universal life, variable universal life and asset preserver products. Most of the ceded business is on an automatic basis. The quota-share currently ceded ranges from 40% to 90%. All products are ceded from first dollar except for survivorship variable universal life which has a minimum size policy ceded of $1 million and either $0 or $1 million for current performance survivorship universal life and no minimum size for single life. Cases in excess of the Company's retention and certain substandard cases are ceded on a facultative basis. The majority of the Company's facultative reinsurance is for substandard cases which the Company typically cedes 90%.

NOTE 13 - REINSURANCE (continued)

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

Life insurance reinsured was 60% and 61% of total life insurance in-force at December 31, 2017, and 2016, respectively. The reserve reductions taken for life insurance reinsured at December 31, 2017 and 2016 were $4,447 million and $4,550 million, respectively.

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

	2017	2016
Premiums:		
Direct	$ 13,928	$ 13,360
Assumed	4	4
Ceded	(616)	(632)
Net premiums	$ 13,316	$ 12,732
Policyholders' benefits ceded	$ 774	$ 715
Reinsurance recoverable	$ 207	$ 168

The Company cedes 90% of the retained portion of a block of in-force life insurance business through a reinsurance agreement with New York Life using a combination of coinsurance with funds withheld for the fixed portion maintained in the general account and modified coinsurance ("MODCO") for policies in the separate accounts. Under both the MODCO and funds withheld treaties, the Company retains the assets held in relation to the policy reserves and separate accounts liabilities. An experience refund will be paid to the Company at the end of each accounting period for 100% of New York Life's profits in excess of $5 million per year. Experience refunds received in 2017 and 2016 were $71 million and $37 million, respectively, which is reported in premiums in the accompanying Statutory Statements of Operations. At December 31, 2017 and 2016, the Company ceded reserves under coinsurance with funds withheld and MODCO of $5,347 million and $5,304 million, respectively.

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

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

NOTE 14 - BENEFIT PLANS

The Company participates in the cost of the following plans sponsored by New York Life: (1) certain postretirement life and health benefits for retired employees and agents including their eligible dependents, (2) certain defined benefit pension plans for eligible employees and agents (3) certain defined contribution plans for substantially all employees and agents and (4) postemployment benefits. The expense for these plans is allocated to the Company in accordance with an intercompany cost sharing agreement. The liabilities for these plans are included with the liabilities for the corresponding plan of New York Life. The Company's share of the cost of these plans was as follows for the years ended December 31, 2017 and 2016 (in millions):

	2017	2016
Postretirement life and health	$ 6	$ 6
Defined benefit pension	27	28
Defined contribution	9	9
Total	$ 42	$ 43

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Support and Credit Agreements

New York Life Capital Corporation ("NYLCC"), a wholly-owned subsidiary of NYLIFE LLC, has a credit agreement with the Company dated December 23, 2004, as amended, whereby NYLCC has agreed to make loans to the Company in an amount up to, but not exceeding, $490 million from the issuance of commercial paper. At December 31, 2017 and 2016, the Company had no outstanding loan balance to NYLCC. During both 2017 and 2016, the Company had no interest expense.

The Company has a credit agreement with New York Life, dated September 30, 1993, as amended, whereby the Company may borrow from New York Life up to $490 million. During 2017 and 2016, the credit facility was not used, no interest was paid and there was no outstanding balance due.

In addition, the Company has a credit agreement with New York Life dated April 1, 1999, as amended, in which New York Life may borrow from the Company up to $490 million. During 2017 and 2016, the credit facility was not used, no interest was paid and there was no outstanding balance due.

Guarantees

At the inception of a guarantee (except unlimited guarantees), the Company recognizes an initial liability at fair value for the obligations it has undertaken, regardless of the probability of performance under the guarantee. This includes guarantees made on behalf of affiliates unless the guarantee is deemed unlimited. At December 31, 2017 and 2016, the Company had no such guarantees.

Litigation

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES (continued)

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

Refer to Note 6 - Investments for a more detailed discussion of the Company's commitments for loaned securities and repurchase agreements.

Assessments

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

The following table presents the change in the assets recognized from paid and accrued premium tax offsets and policy surcharges at December 31, 2017 and 2016 (in millions):

	2017	2016
Assets recognized from paid and accrued premium tax offsets and policy surcharges prior year-end	$ 10	$ 16
Decreases current year:		
Premium tax offset applied	(6)	(6)
Assets recognized from paid and accrued premium tax offsets and policy surcharges current year-end	$ 4	$ 10

Other Commitments and Contingencies

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

At December 31, 2017 and 2016, the Company and its guaranteed separate accounts had contractual commitments to extend credit for commercial mortgage loans at both fixed and variable rates of interest, which amounted to approximately $821 million and $508 million, respectively. These commitments are

NOTE 15 - COMMITMENTS AND CONTINGENCIES (continued)

diversified by property type and geographic location. There were no contractual commitments to extend credit for residential loans at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to $662 million and $447 million, respectively.

Unfunded commitments on limited partnership, limited liability companies and other invested assets amounted to $268 million and $257 million at December 31, 2017 and 2016, respectively.

Unfunded commitments on LIHTC amounted to $17 million and $32 million at December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, unfunded commitments on LIHTC are included in limited partnerships and other invested assets, with an offset in other liabilities in the accompanying Statutory Statement of Financial Position.

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

FHLB Agreement

On February 18, 2015, the Company became a member of the FHLB of Pittsburgh. Membership in the FHLB of Pittsburgh provides the Company with a significant source of alternative liquidity. Advances received by the general account are included in other liabilities. When borrowing from the FHLB of Pittsburgh, the Company is required to post collateral in the form of eligible securities, including mortgage-backed, government and agency debt instruments for each of the advances received. Upon any event of default by the Company, the FHLB of Pittsburgh's recovery from the collateral is limited to the amount of the Company's liability to the FHLB of Pittsburgh.

The amount of FHLB of Pittsburgh capital stock held, in aggregate exclusively in the Company’s general account at December 31, 2017 and 2016 was as follows (in millions):

	2017	2016
Membership stock - Class B	$ 26	$ 24
Activity stock	—	—
Aggregate total	$ 26	$ 24
Actual or estimated borrowing capacity as determined by the insurer	$ 4,903	$ 4,550

At December 31, 2017 and 2016, membership stock is not eligible for redemption.

NOTE 15 - COMMITMENTS AND CONTINGENCIES (continued)

At December 31, 2017 and 2016, the Company did not have an outstanding balance due to the FHLB of Pittsburgh. The maximum amount borrowed and collateral pledged to the FHLB of Pittsburgh during the years ended December 31, 2017 and 2016 was as follows (in millions):

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

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

NOTE 16 - INCOME TAXES

The components of the net DTAs and DTLs were as follows at December 31, 2017 and 2016 (in millions):

	2017			2016			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	$ 944	$ 127	$ 1,071	$ 775	$ 316	$ 1,091	$ 169	$ (189)	$ (20)
Statutory valuation allowance	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs	944	127	1,071	775	316	1,091	169	(189)	(20)
Nonadmitted DTAs	88	—	88	404	59	463	(316)	(59)	(375)
Subtotal net admitted DTAs	856	127	983	371	257	628	485	(130)	355
Gross DTLs	526	121	647	133	235	368	393	(114)	279
Net admitted DTAs	$ 330	$ 6	$ 336	$ 238	$ 22	$ 260	$ 92	$ (16)	$ 76

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

NOTE 16 - INCOME TAXES (continued)

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

	December 31, 2017			December 31, 2016			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks (Paragraph 11.a)	$ —	$ 22	$ 22	$ 238	$ 13	$ 251	$ (238)	$ 9	$ (229)
Adjusted gross DTAs expected to be realized (excluding the amount of DTAs from paragraph 11.a above) after application of the threshold limitation (the lesser of paragraph 11.b.i and 11.b.ii below):	313	—	313	—	9	9	313	(9)	304
Adjusted gross DTAs expected to be realized following the balance sheet date. (Paragraph 11.b.i)	313	—	313	—	9	9	313	(9)	304
Adjusted gross DTAs allowed per limitation threshold (Paragraph 11.b.ii)	N/A	N/A	1,328	N/A	N/A	1,270	N/A	N/A	58
Adjusted gross DTAs (excluding the amount of DTAs from paragraphs 11.a and 11.b above) offset by gross DTLs (Paragraph 11.c)	543	105	648	133	235	368	410	(130)	280
DTAs admitted as the result of application of SSAP 101 (Total of paragraphs 11.a, 11.b, 11.c).	$ 856	$ 127	$ 983	$ 371	$ 257	$ 628	$ 485	$ (130)	$ 355

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

	December 31,	
	2017	2016
Ratio percentage used to determine recovery period and threshold limitation amount.	1,159%	1,170%
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in paragraph 11.b.ii above.	$ 8,852	$ 8,464

There was no impact on the Company’s adjusted gross and net admitted DTAs due to tax planning strategies at December 31, 2017 and 2016.

The Company did not use reinsurance in its tax planning strategies.The Company had no unrecognized DTLs at December 31, 2017 and 2016. Additionally, the Company had no adjustments to gross DTAs because of a change in circumstances that causes a change in judgment about the realizability of the related DTAs.

NOTE 16 - INCOME TAXES (continued)

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. Deferred taxes were revalued to reflect the 21% corporate income tax rate with the following result:

	2017
Deferred income tax benefit on change in net unrealized capital gains and losses	$ 14
Decrease in net deferred tax related to other items	(296)
Decrease to net deferred taxes	(282)
Decrease to nonadmitted deferred taxes	325
Total change in net admitted deferred tax asset	$ 43

All income tax effects have been identified and appropriately accounted for as a result of TCJA in accordance with INT 18-01. The tax accounting for the revaluation of deferred tax liabilities is complete. The income tax effects that have been recorded as provisional as the analysis is incomplete but a reasonable estimate can be determined include the restatement at December 31, 2017 of life insurance reserves for tax purposes pursuant to the TCJA.

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 calculated using pre TCJA rules to the amounts required to be held under the TCJA. This revaluation requires establishing a "gross up" in which an additional DTA for the revised statutory to tax difference 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 DTAs and DTLs in the amount of $472 million. The tax accounting will be completed within the measurement period, as defined in INT 18-01, and any adjustments will be recorded in the period in which the estimate is complete, in accordance with INT 18-01. The determination of the impact of the income tax effects of these items and the items reflected as provisional amounts will require additional analysis of historical records and further interpretation of the TCJA from yet to be issued U.S. Treasury regulations which will require more time, information and resources than currently available to the Company.

Significant components of the current federal income tax expense incurred for the years ended December 31, 2017 and 2016 were as follows (in millions):

	2017	2016	Change
Current Income Tax			
Federal[1]	$ 248	$ 279	$ (31)
Foreign	1	—	1
Subtotal	249	279	(30)
Federal income tax on net capital gains (losses)	15	(21)	36
Total federal and foreign income tax expense incurred	$ 264	$ 258	$ 6

[1] The Company had investment tax credits of $36 million and $38 million for the years ended December 31, 2017 and 2016, respectively.

NOTE 16 - INCOME TAXES (continued)

The tax effects of temporary differences that give rise to DTAs and DTLs at December 31, 2017 and 2016 were as follows (in millions):

	2017	2016	Change
DTAs			
Ordinary:			
Pension accrual	$ 29	$ 52	$ (23)
Policyholder reserves	624	261	363
Deferred acquisition costs	233	391	(158)
Fixed assets	2	3	(1)
Receivables - nonadmitted	9	27	(18)
Investments	47	40	7
Other	(1)	1	(2)
Subtotal	943	775	168
Nonadmitted	88	404	(316)
Admitted ordinary DTAs	855	371	484
Capital:			
Investments	127	316	(189)
Subtotal	127	316	(189)
Nonadmitted		59	(59)
Admitted capital DTAs	127	257	(130)
Total admitted DTAs	982	628	354
DTLs			
Ordinary:			
Investments	28	55	(27)
Policyholder reserves	497	75	422
Other	1	3	(2)
Subtotal	526	133	393
Capital:			
Investments	121	235	(114)
Subtotal	121	235	(114)
Total DTLs	647	368	279
Net admitted DTAs	$ 335	$ 260	$ 75

Deferred income tax benefit on change in net unrealized capital gains and losses	$ (18)
Decrease in net deferred taxes related to other items	(282)
Decrease in DTAs nonadmitted	375
Total change in net admitted DTAs	$ 75

NOTE 16 - INCOME TAXES (continued)

The Company's income tax expense for the years ended December 31, 2017 and 2016 differs from the amount obtained by applying the statutory rate of 35% to net gain from operations after dividends to policyholders and before federal income taxes for the following reasons (in millions):

	2017	2016	Change
Net gain from operations after dividends to policyholders and before federal income taxes	$ 304	$ 409	$ (105)
Net realized capital gains (losses)	31	(38)	69
Tax exempt income	(52)	(47)	(5)
Tax credits, net of withholding	(40)	(40)	—
Amortization of IMR	(12)	(18)	6
Impact of TCJA	296	—	296
Prior year audit liability and settlement	(1)	(36)	35
Non-admitted assets	12	(13)	25
Accruals in surplus	(4)	(23)	19
Other	12	10	2
Income tax incurred and change in net DTAs during period	$ 546	$ 204	$ 342
Federal income taxes reported in the Company's Statutory Statements of Operations	$ 249	$ 279	$ (30)
Capital gains tax benefit (expense) incurred	15	(21)	36
Change in net deferred income taxes	282	(54)	336
Total statutory income tax expense	$ 546	$ 204	$ 342

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

The Company did not have any operating loss and tax credit carry forwards available for tax purposes. The total income taxes incurred in prior years that will be available for recoupment in the event of future net losses total $26 million, $0 million and $39 million, related to the years ended December 31, 2017, 2016 and 2015, respectively.

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

As discussed in Note 3 – Significant Accounting Policies - Federal Income Taxes, the Company's federal income tax return is consolidated with New York Life, NYLIFE Insurance Company of Arizona, NYLIFE LLC, New York Life Enterprises LLC, NYL Investments, and NYL Investors.

At December 31, 2017, the Company recorded a current income tax receivable of $18 million.

At December 31, 2017, the Company had no protective tax deposits on deposit with the IRS under Internal Revenue Code Section 6603 of the IRS Code.

NOTE 17 - CAPITAL AND SURPLUS

Capitalization

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

Other Surplus Adjustments

Other adjustments, net in the accompanying Statutory Statements of Changes in Surplus at December 31, 2017 and 2016, principally include the effects of the following (in millions):

	2017	2016
Surplus withdrawn from separate accounts	$ 44	$ 41
Changes in surplus relating to separate accounts	(50)	(38)
Change in liability for reinsurance in unauthorized companies	2	(4)
Total	$ (4)	$ (1)

Nonadmitted Assets

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

The following table shows the major categories of assets that were nonadmitted at December 31, 2017 and 2016, respectively (in millions):

	2017	2016	Change
Net deferred tax assets	$ 88	$ 463	$ (375)
Clearing and suspense	30	62	(32)
Other	35	36	(1)
Total	$ 153	$ 561	$ (408)

NOTE 18 - DIVIDENDS TO STOCKHOLDER

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

NOTE 18 - DIVIDENDS TO STOCKHOLDER (continued)

distribution or cash or other property, whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of (1) 10 percent of the Company's surplus as regards policyholders as of the preceding December 31 or (2) the net gain from operations of the Company for the 12 month period ending on the preceding December 31 (not including pro rata distributions of any class of the Company's own securities).

At December 31, 2017, the amount of earned surplus of the Company available for the payment of dividends was $5,234 million. The maximum amount of dividends that may be paid in 2018 without prior notice to or approval of the Delaware Insurance Commissioner is $916 million.

Dividends may be declared by the Board of Directors of the Company from available surplus, as it deems appropriate, on a non-cumulative basis. At December 31, 2017, the Company paid a $275 million dividend to its sole shareholder, New York Life. At December 31, 2016, the Company did not declare a dividend to New York Life.

NOTE 19 - LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS

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

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
General Account						
059469AF3	$ 1,301	$ 1,275	$ 26	$ 1,275	$ 1,277	12/31/2017
05948KP52	635	630	5	630	613	12/31/2017
059515BM7	8	7	1	7	7	12/31/2017
05951FAK0	400	382	18	382	385	12/31/2017
05951KAZ6	116	113	3	113	112	12/31/2017
05951KBA0	1,102	1,068	34	1,068	1,067	12/31/2017
05953YAA9	5,427	5,309	118	5,309	5,416	12/31/2017
12627HAK6	1,148	1,118	30	1,118	1,054	12/31/2017
12628LAJ9	292	277	15	277	268	12/31/2017
12629EAD7	1,326	1,315	11	1,315	1,279	12/31/2017
12667G7X5	1,416	1,412	4	1,412	1,413	12/31/2017
12667GXM0	2,338	2,184	154	2,184	2,148	12/31/2017
12669GT50	67	67	—	67	65	12/31/2017
17029RAA9	930	351	579	351	299	12/31/2017
225458XZ6	10,027	9,479	548	9,479	9,664	12/31/2017
36185MBN1	217	210	7	210	206	12/31/2017
3622ELAG1	390	384	6	384	377	12/31/2017
3622MPAT5	51	50	1	50	50	12/31/2017

NOTE 19 - LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS (continued)

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
46625YQY2	2,498	1,198	1,300	1,198	1,141	12/31/2017
46628BBD1	49	49	—	49	47	12/31/2017
46628LBK3	318	208	110	208	250	12/31/2017
61749EAH0	1,077	1,031	46	1,031	1,025	12/31/2017
61752RAH5	530	527	3	527	524	12/31/2017
65536VAC1	3,031	1,845	1,186	1,845	2,870	12/31/2017
67112PAA6	4,195	—	4,195	—	—	12/31/2017
69336QAM4	113	20	93	19	—	12/31/2017
69337VAE0	2,381	2,378	3	2,378	2,200	12/31/2017
784649AG0	218	218	—	218	190	12/31/2017
94980GAK7	296	296	—	296	292	12/31/2017
94983UAB3	141	136	5	135	140	12/31/2017
00011#AA1	707	707	—	707	287	9/30/2017
000112AA0	1,071	1,071	—	1,071	829	9/30/2017
059469AF3	1,358	1,344	14	1,344	1,334	9/30/2017
05947US25	2,178	1,002	1,176	1,002	985	9/30/2017
05948KX79	1,751	1,718	33	1,718	1,699	9/30/2017
059515AE6	1,316	1,286	30	1,286	1,216	9/30/2017
05951KAZ6	124	121	3	121	119	9/30/2017
05951KBA0	1,177	1,151	26	1,151	1,137	9/30/2017
12627HAK6	1,198	1,181	17	1,181	1,105	9/30/2017
12628LAJ9	304	302	2	302	286	9/30/2017
17308FAD1	3,451	3,412	39	3,412	3,421	9/30/2017
36185MBN1	15	15	—	15	15	9/30/2017
3622ELAG1	405	401	4	401	395	9/30/2017
45660LSY6	385	382	3	382	374	9/30/2017
61752RAH5	543	542	1	542	540	9/30/2017
69336QAM4	203	113	90	113	—	9/30/2017
76110VSU3	1,169	1,146	23	1,146	1,090	9/30/2017
784649AG0	309	309	—	309	265	9/30/2017
78476YAA4	1,147	1,142	5	1,142	1,054	9/30/2017
78477AAA5	366	366	—	366	333	9/30/2017
00011#AA1	1,331	1,331	—	1,331	537	6/30/2017
059469AF3	1,427	1,401	26	1,401	1,350	6/30/2017
059515AE6	1,407	1,353	54	1,353	1,265	6/30/2017
059515BM7	12	11	1	11	9	6/30/2017
05951FAK0	431	428	3	428	401	6/30/2017
05953YAA9	5,749	5,733	16	5,733	5,690	6/30/2017

NOTE 19 - LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS (continued)

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
12627HAK6	1,265	1,236	29	1,236	1,123	6/30/2017
12628LAJ9	320	313	7	313	294	6/30/2017
126384AQ9	59	54	5	54	56	6/30/2017
12667GXN8	857	848	9	848	850	6/30/2017
12668AQ65	2,667	2,640	27	2,640	2,647	6/30/2017
126694RN0	1,326	1,250	76	1,250	1,309	6/30/2017
32051GTD7	1,201	1,056	145	1,056	1,062	6/30/2017
3622ELAG1	419	413	6	413	409	6/30/2017
45667QAD3	335	333	2	333	332	6/30/2017
466247D59	—	—	—	—	—	6/30/2017
46628BBD1	662	630	32	630	589	6/30/2017
649603AQ0	1,665	1,650	15	1,650	1,632	6/30/2017
69336QAM4	261	203	58	203	12	6/30/2017
69336RAZ3	418	359	59	359	402	6/30/2017
81744HAF0	885	842	43	842	815	6/30/2017
863579XV5	413	371	42	371	333	6/30/2017
93934FCE0	1,476	1,459	17	1,459	1,464	6/30/2017
000112AA0	919	919	—	919	666	3/31/2017
059469AF3	1,486	1,480	6	1,480	1,363	3/31/2017
05947US25	2,666	2,210	456	2,210	2,210	3/31/2017
05948KX79	2,018	1,984	34	1,984	1,939	3/31/2017
059515AE6	1,493	1,459	34	1,459	1,322	3/31/2017
05951FAK0	476	460	16	460	442	3/31/2017
05951KAZ6	134	134	—	134	119	3/31/2017
05951KBA0	1,897	1,887	10	1,887	1,748	3/31/2017
05953YAA9	5,966	5,881	85	5,881	5,664	3/31/2017
12498NAD5	1,355	1,335	20	1,335	986	3/31/2017
12627HAK6	1,034	1,015	19	1,015	876	3/31/2017
12628KAF9	1,393	1,274	119	1,274	1,317	3/31/2017
12628LAJ9	357	331	26	331	292	3/31/2017
12667GXN8	891	888	3	888	872	3/31/2017
12668AQ65	2,761	2,747	14	2,747	2,740	3/31/2017
14311KAA8	21,967	21,967	—	21,967	20,476	3/31/2017
16163LAR3	87	84	3	84	85	3/31/2017
17308FAD1	3,737	3,735	2	3,735	3,715	3/31/2017
251513AV9	2,460	2,433	27	2,433	2,430	3/31/2017
251513BC0	949	946	3	946	945	3/31/2017
294751DC3	188	187	1	187	187	3/31/2017

NOTE 19 - LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS (continued)

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
32051GZR9	889	858	31	858	878	3/31/2017
36185MBN1	321	315	6	315	305	3/31/2017
3622MPAT5	61	60	1	60	60	3/31/2017
362334MD3	32	27	5	27	31	3/31/2017
362375AF4	967	953	14	953	931	3/31/2017
45667QAD3	4,063	3,932	131	3,932	3,913	3/31/2017
45667QAE1	7,270	7,152	118	7,152	7,162	3/31/2017
466247D59	—	—	—	—	—	3/31/2017
46628BBD1	748	716	32	716	636	3/31/2017
69337VAE0	2,440	2,390	50	2,390	2,167	3/31/2017
78476YAA4	961	961	—	961	831	3/31/2017
81744HAF0	949	918	31	918	838	3/31/2017
93934FCE0	1,563	1,550	13	1,550	1,541	3/31/2017
93934FEM0	1,415	1,408	7	1,408	1,367	3/31/2017
94983UAB3	2,749	2,732	17	2,732	2,687	3/31/2017
94985GBB1	1,817	1,757	60	1,757	1,741	3/31/2017
Subtotal - General Account	**XXX**	**XXX**	**12,033**	**XXX**	**XXX**	
Guaranteed Separate Accounts						
059469AF3	216	212	4	212	213	12/31/2017
05951KBA0	58	56	2	56	56	12/31/2017
12627HAK6	202	196	6	196	186	12/31/2017
3622MPAT5	51	50	1	50	50	12/31/2017
61749EAH0	231	221	10	221	220	12/31/2017
65536VAC1	31	19	12	19	30	12/31/2017
94980GAK7	47	47	—	47	46	12/31/2017
009451AP0	13	7	6	7	8	9/30/2017
059469AF3	226	224	2	224	222	9/30/2017
059515AE6	155	151	4	151	143	9/30/2017
05951KBA0	62	61	1	61	60	9/30/2017
12627HAK6	211	208	3	208	195	9/30/2017
76110VSU3	10	10	—	10	10	9/30/2017
009451AP0	31	15	16	15	13	6/30/2017
059469AF3	237	233	4	233	225	6/30/2017
059515AE6	166	159	7	159	149	6/30/2017
12627HAK6	222	218	4	218	198	6/30/2017
126384AQ9	59	54	5	54	56	6/30/2017

NOTE 19 - LOAN-BACKED AND STRUCTURED SECURITY IMPAIRMENTS (continued)

IMPAIRMENTS TAKEN ON CURRENT HOLDINGS DURING THE CURRENT YEAR

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CUSIP[1,2]	Amortized Cost Before Current Period OTTI	Projected Cash Flows	Current Period Recognized OTTI	Amortized Cost After OTTI	Fair Value	Financial Statement Reporting Period
059469AF3	247	246	1	246	227	3/31/2017
059515AE6	176	172	4	172	156	3/31/2017
05951KBA0	378	375	3	375	362	3/31/2017
12628KAF9	182	166	16	166	172	3/31/2017
16163LAR3	766	743	23	743	746	3/31/2017
3622MPAT5	61	60	1	60	60	3/31/2017
94983UAB3	442	439	3	439	432	3/31/2017
Subtotal - Guaranteed Separate Accounts	**XXX**	**XXX**	**138**	**XXX**	**XXX**	
Grand Total	**XXX**	**XXX**	**$ 12,171**	**XXX**	**XXX**	

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

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

NOTE 20 - 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 statutory financial statements that would have a material effect on the financial condition of the Company.