NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly-owned subsidiary of
New York Life Insurance Company)

FINANCIAL STATEMENTS
(STATUTORY BASIS)

DECEMBER 31, 2022 and 2021

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Report of Independent Auditors

To the Board of Directors of NYLIFE Insurance Company of Arizona

Opinions

We have audited the accompanying statutory financial statements of NYLIFE Insurance Company of Arizona (the "Company"), which comprise the statutory statements of financial position as of December 31, 2022 and 2021, and the related statutory statements of operations, of changes in capital and surplus, and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

Unmodified Opinion on Statutory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, 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 Arizona Department of Insurance and Financial Institutions described in Note 2.

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 section of our report, the accompanying financial statements 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, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Arizona Department of Insurance and Financial Institutions, 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, although not reasonably determinable, are presumed to be material.

Emphasis of Matter

As disclosed in Note 9 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 in respect to this matter.

Responsibilities of Management 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 Arizona Department of Insurance and Financial Institutions. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

New York, New York
April 3, 2023

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly-owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2022	**2021**
	(in thousands)	
Assets		
Bonds	$ 133,949	$ 138,584
Cash, cash equivalents and short-term investments	8,369	4,141
Total cash and invested assets	142,318	142,725
Deferred and uncollected premiums	11,968	12,216
Investment income due and accrued	814	817
Reinsurance recoverable	1,689	796
Net deferred tax assets	2,298	2,371
Other assets	73	82
Total assets	$ 159,160	$ 159,007
Liabilities, Capital and Surplus		
Liabilities:		
Policy reserves	$ 45,769	$ 44,746
Deposit funds	884	930
Policy claims	840	1,131
Payable to parent and affiliates	176	154
Other liabilities	869	2,380
Asset valuation reserve	629	545
Total liabilities	49,167	49,886
Capital and surplus:		
Capital stock-par value $100		
(30,000 shares authorized, 25,000 shares issued and outstanding)	2,500	2,500
Gross paid in and contributed surplus	98,500	98,500
Unassigned surplus	8,993	8,121
Total capital and surplus	109,993	109,121
Total liabilities, capital and surplus	$ 159,160	$ 159,007

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly-owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2022	**2021**
	(in thousands)	
Income		
Premiums	$ 7,636	$ 3,712
Net investment income	3,848	4,227
Commissions and expense allowances on reinsurance ceded	905	912
Total income	12,389	8,851
Benefits and expenses		
Death benefits	5,340	6,001
Conversion charges paid to parent and affiliate	309	654
Other benefit payments	1,212	1,242
Total benefit payments	6,861	7,897
Additions/(reductions) to policy reserves	796	(982)
Operating expenses	3,531	3,564
Total benefits and expenses	11,188	10,479
Gain/(loss) from operations before federal and foreign income taxes	1,201	(1,628)
Federal and foreign income tax expense	151	352
Net gain/(loss) from operations	1,050	(1,980)
Net realized capital gains/(losses), after taxes and transfers to interest maintenance reserve	2	(5)
Net income/(loss)	$ 1,052	$ (1,985)

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly-owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CHANGES IN CAPITAL AND SURPLUS

	December 31,	
	2022	**2021**
	(in thousands)	
Capital and surplus, beginning of year	$ 109,121	$ 109,659
Net increase/(decrease) due to:		
Net income/(loss)	1,052	(1,985)
Change in net deferred income tax	(79)	703
Change in nonadmitted assets	(17)	776
Change in asset valuation reserve	(84)	(32)
Net increase/(decrease)	872	(538)
Capital and surplus, end of year	$ 109,993	$ 109,121

NYLIFE INSURANCE COMPANY OF ARIZONA
(A wholly-owned subsidiary of New York Life Insurance Company)

STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2022	**2021**
	(in thousands)	
Cash flow from operating activities:		
Premiums received	$ 7,673	$ 9,178
Net investment income received	3,621	3,999
Commissions and expense allowances on reinsurance ceded	917	906
Total received	12,211	14,083
Benefits and other payments	7,146	8,206
Operating expenses paid	3,635	3,675
Federal income taxes paid	154	711
Total paid	10,935	12,592
Net cash from operating activities	1,276	1,491
Cash flow from investing activities:		
Proceeds from investments sold, matured or repaid	20,734	20,590
Cost of investments acquired	(17,264)	(19,947)
Net cash from investing activities	3,470	643
Cash flow from financing and miscellaneous activities:		
Net outflows from deposit contracts	(51)	(200)
Other miscellaneous (uses) sources	(467)	845
Net cash (used in) from financing and miscellaneous activities	(518)	645
Net increase in cash, cash equivalents and short-term investments	4,228	2,779
Cash, cash equivalents and short-term investments, beginning of year	4,141	1,362
Cash, cash equivalents and short-term investments, end of year	$ 8,369	$ 4,141
Supplemental disclosures of cash flow information:		
Non-cash activities during the year:		
Transfer of investments and exchange of bonds to bonds	$ —	$ 1,136
Depreciation/amortization on fixed assets	$ 445	$ 425
Capitalized interest on bonds	$ 41	$ 71

See accompanying notes to financial statements

NOTE 1 - NATURE OF OPERATIONS

NYLIFE Insurance Company of Arizona ("the Company"), a direct, wholly-owned subsidiary of New York Life Insurance Company ("New York Life"), is domiciled in the state of Arizona, and was established to engage in the life insurance and annuity business. The Company currently services a ten-year guaranteed term life insurance product, which was sold through New York Life's agency force. The Company stopped sales of this product in 2011.

NOTE 2 - BASIS OF PRESENTATION

The accompanying financial statements have been prepared using accounting practices prescribed by the Arizona Department of Insurance and Financial Institutions ("the Department") ("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 Department recognizes only statutory accounting practices prescribed or permitted by the state of Arizona for determining and reporting the financial position and results of operations of an insurance company and for determining its solvency under Arizona 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 Arizona. 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. Arizona has adopted all prescribed accounting practices found in NAIC SAP. The Company has no permitted practices.

Statutory vs. U.S. GAAP Basis of Accounting

Financial statements prepared under NAIC SAP as determined under Arizona State Insurance Law vary from those prepared under U.S. GAAP. The effects of those differences are material to the Company's financial statements. The differences that would most likely be material are described below:

Investments

- investments in bonds are generally carried at amortized cost or values as prescribed by the Department, 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;

- 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;

Insurance Contracts

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

NOTE 2 – BASIS OF PRESENTATION (continued)

Taxes

- 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% of the tax benefit associated with a tax position, the loss contingency is increased to 100%, whereas under U.S. GAAP the amount of the benefit for any uncertain tax position is the largest amount that is greater than 50% likely of being realized upon settlement;

Surplus

- 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;

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

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.

Bonds

Bonds 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 7 - Fair Value Measurements for discussion on the valuation approach and methods for bonds.

The interest method for loan-backed and structured securities, which are included in bonds, uses current assumptions of projected cash flows. Amortization of 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 backed by the government and high credit quality adjustable rate mortgage loan-backed securities (those rated AA or above at the date of acquisition), the adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For all other securities, including all 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Other than Temporary Impairments

The cost basis of bonds 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), is deemed other-than-temporarily impaired, the difference between the investment's 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 (a) has the intent to sell the security or (b) 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.

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.

Cash, Cash Equivalents and Short-term Investments

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Valuation Reserve and IMR

The AVR is used to stabilize surplus from fluctuations in the fair value of bonds and other investments. Changes in the AVR are accounted for as direct increases or decreases in surplus. The IMR captures interest related realized gains and losses on sales (net of taxes) of bonds and interest related other-than-temporary impairments (net of taxes), which are amortized into net income over the expected years to maturity of the investments sold or impaired. 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. The IMR is reported in the Other liabilities in the accompanying Statutory Statements of Financial Position.

Premiums and Related Expenses

Life premiums are recognized as revenue when due. 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.

Net Investment Income

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

Conversion Charges Paid to Parent and Affiliate

The Company compensates New York Life and New York Life Insurance and Annuity Corporation (“NYLIAC”), a wholly-owned subsidiary of New York Life, for policy credits associated with converting the Company’s term policies to permanent cash value life insurance policies issued by New York Life and NYLIAC without any additional underwriting. The policy credits are compensation for the anticipated costs of extra mortality on the converted policies. The assumptions used to calculate the policy credits include interest rates, lapse rates, mortality rates and net amount at risk.

Policy Reserves

Policy reserves are based on mortality tables and valuation interest rates, which are consistent with statutory requirements and are designed to be sufficient to provide for contractual benefits. The Company holds reserves greater than those developed under the minimum statutory reserving rules when the valuation actuary determines that the minimum statutory reserves are inadequate. Actual results could differ from these estimates and may result in the establishment of additional reserves. The valuation actuary monitors actual experience and, where circumstances warrant, revises assumptions and the related estimates for policy reserves. Refer to Note 10 - Insurance Liabilities for a discussion of reserves in excess of minimum NAIC requirements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Income Taxes

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. The tax allocation agreement provides that the Company computes its share of 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 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.

The Company generally recognizes deferred federal income tax assets ("DTAs") and deferred federal income tax liabilities ("DTLs") for expected future tax consequences of temporary differences between statutory and taxable income. Changes in DTAs and DTLs are recognized as a separate component of surplus (except for the net deferred taxes related to investments, which are included in unrealized gains and losses). Limitations of the admitted amount of DTA are calculated in accordance with SSAP No. 101, Income Taxes, a replacement of SSAP 10R and SSAP 10. 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. Refer to Note 14 – Income Taxes for more detailed information about the Company's income taxes.

Other Assets and Liabilities

Other assets primarily consist of guaranty funds receivable and receivables from parent.

Other liabilities primarily consist of premiums paid in advance, liabilities for interest on claims, and IMR.

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 Department to be taken into account in determining the Company's financial condition.

Nonadmitted assets primarily consist of 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 insurance liabilities are reported in Note 10 - Insurance Liabilities. The aggregate fair value of all financial instruments summarized by type is included in Note 7 - 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.

NOTE 4 – BUSINESS RISKS AND UNCERTAINTIES

The Company is exposed to various risks, including, but not limited to, insurance, financial, operational, and regulatory risks.

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 either 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 are exposed to market risk, policyholder behavior risk, and mortality/longevity risk. Furthermore, the level of sales of the Company’s insurance and investment products is influenced by many factors, including 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. In addition, the investment portfolio is exposed to climate risk, which may affect the value of the Company’s investments.

The Company is subject to various operational risks that could adversely impact its profitability, notably technology risks, which include cybersecurity. Technology risks may involve failures or inadequacies in the Company’s technology systems, including the risk of damage to or theft of Company information, whether in digital or physical formats, or breaches of the Company’s technology platforms. Operational risks also include business disruption risks, which may involve disruptions to mission-critical business functions as a result of system or infrastructure failures, malicious activity, pandemics, and natural and man-made disasters. Climate change may increase the frequency and severity of certain natural disasters that can lead to operational risks.

The Company continues to monitor the economic environment and other potential impacts relating to the COVID-19 pandemic. The Company has maintained effective operations and levels of policyholder service throughout the course of the pandemic.

NOTE 5 – RECENT ACCOUNTING PRONOUNCEMENTS

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 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 2022 or 2021 that impacted surplus.

In 2020, the NAIC issued Interpretation 20-01 to provide statutory accounting and reporting guidance for the adoption of ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* under U.S. GAAP. This Interpretation adopts, with minor modification, the U.S. GAAP guidance, which provides optional expedients and exceptions for applying current accounting guidance to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met, through December 31, 2022. The Company is performing an ongoing evaluation of the impact of reference rate reform on its contracts. Since most of the Company's contracts are expected to meet the criteria for applying the accounting expedients listed in the Interpretation, reference rate reform has no material impact to the Company's surplus or net income at December 31, 2022.

NOTE 6 - INVESTMENTS

Bonds

The carrying value and estimated fair value of bonds at December 31, 2022 and 2021, by contractual maturity are presented below (in thousands):

	2022		2021	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Due in one year or less	$ 18,323	$ 18,113	$ 15,679	$ 15,847
Due after one year through five years	50,279	47,859	57,947	60,152
Due after five years through ten years	60,485	52,465	60,011	61,544
Due after ten years	4,862	4,300	4,947	5,283
Total	$ 133,949	$ 122,737	$ 138,584	$ 142,826

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 ("ABS") 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, there were no short-term investments at December 31, 2022 and $1,407 at December 31, 2021, and cash equivalents with a carrying value of $8,736 thousand and $2,144 thousand at December 31, 2022 and 2021, are due in one year or less. Carrying value approximates fair value for these investments.

At December 31, 2022 and 2021, the distribution of gross unrealized gains and losses on bonds were as follows (in thousands):

	2022			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. governments	$ 8,496	$ —	$ 586	$ 7,910
All other governments	750	—	2	748
U.S. special revenue and special assessment	7,866	27	847	7,046
Industrial and miscellaneous unaffiliated	116,836	119	9,922	107,033
Total	$ 133,949	$ 146	$ 11,357	$ 122,737

	2021			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. governments	$ 10,363	$ 183	$ 23	$ 10,523
All other governments	750	18	—	767
U.S. special revenue and special assessment	8,937	679	—	9,616
Industrial and miscellaneous unaffiliated	118,534	3,905	519	121,920
Total	$ 138,584	$ 4,785	$ 542	$ 142,826

NOTE 6 – INVESTMENTS (continued)

Assets on Deposit

At December 31, 2022 and 2021, the Company's restricted assets were as follows (in thousands):

2022

	Gross Restricted				Percentage	
Restricted Asset Category	Total Current Year	Total From Prior Year	Increase / (Decrease)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
On deposit with states	$ 3,406	$ 3,477	$ (71)	$ 3,406	2.140 %	2.140 %

2021

	Gross Restricted				Percentage	
Restricted Asset Category	Total Current Year	Total From Prior Year	Increase / (Decrease)	Total Current Year Admitted Restricted	Gross Restricted to Total Assets	Admitted Restricted to Total Admitted Assets
On deposit with states	$ 3,477	$ 3,557	$ (80)	$ 3,477	2.184 %	2.187 %

NOTE 7 – FAIR VALUE MEASUREMENTS

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

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

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

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

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

The Company had no investments held at fair value at December 31, 2022 and 2021.

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

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 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.

The following table presents the estimated fair value and carrying value of the Company's financial instruments at December 31, 2022 and 2021 (in thousands):

	2022					
	Fair Value	Carrying Value	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 122,738	$ 133,949	$ —	$ 122,738	$ —	$ —
Cash, cash equivalents and short-term investments	8,369	8,369	16	8,353	—	—
Investment income due and accrued	814	814	—	814	—	—
Total assets	$ 131,921	$ 143,131	$ 16	$ 131,905	$ —	$ —
Liabilities:						
Payable to parent and affiliates	$ 176	$ 176	$ —	$ 176	$ —	$ —
Premiums paid in advance	78	78	—	78	—	—
Total liabilities	$ 254	$ 254	$ —	$ 254	$ —	$ —

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

	2021					
	Fair Value	Carrying Amount	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 142,826	$ 138,584	$ —	$ 142,826	$ —	$ —
Cash, cash equivalents and short-term investments	4,141	4,141	590	3,551	—	—
Investment income due and accrued	817	817	—	817	—	—
Total assets	$ 147,784	$ 143,542	$ 590	$ 147,194	$ —	$ —
Liabilities:						
Payable to parent and affiliates	$ 154	$ 154	$ —	$ 154	$ —	$ —
Premiums paid in advance	86	86	—	86	—	—
Total liabilities	$ 240	$ 240	$ —	$ 240	$ —	$ —

Bonds

Securities priced using a pricing service are generally classified as Level 2. Third-party pricing services generally use an income-based valuation approach by using a discounted cash-flow model or it may also 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, which the Company has determined are observable inputs.

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. These securities are classified as Level 2.

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.

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.

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

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

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

Payables to Parent and Affiliates and Premiums Paid in Advance

For payables to parent and affiliates and premiums paid in advance, the carrying value of the liability approximates fair value due to the short-term nature of these liabilities.

NOTE 8 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Bonds	$ 3,772	$ 4,225
Cash, cash equivalents and short-term investments	144	2
Gross investment income	3,916	4,227
Investment expenses	(153)	(151)
Net investment income	3,763	4,076
Amortization of IMR	85	151
Net investment income, including amortization of IMR	$ 3,848	$ 4,227

Bond Prepayments

The following table shows the Company's securities redeemed or otherwise disposed of as a result of a callable feature (including make whole call provisions) or tender and the amount of investment income generated as a result of a prepayment penalty and/or acceleration fee, which is included in Bonds in the table above ($ in thousands):

	2022	2021
Number of cusips	3	9
Aggregate amount of investment income	$ 10	$ 293

Proceeds from investments in bonds sold were $1,381 thousand and $5,449 thousand for the years ended December 31, 2022 and 2021, respectively. There were no gross gains in 2022 and $90 thousand of gross gains in 2021 were realized on these sales. There were $32 thousand realized gross losses in 2022 and there were no gross losses in 2021. The Company computes gains and losses on sales under the specific identification method.

For the years ended December 31, 2022 and 2021, net investment (losses) / gains were as follows (in thousands):

	2022	2021
Bonds	$ (16)	$ 94
Net realized capital (losses) / gains before tax and transfers to the IMR	(16)	94
Less:		
Capital gains tax (benefit) / expense	(4)	28
Net realized capital (losses) / gains transferred to IMR, after tax	(14)	71
Net realized capital gains / (losses) after transfers to the IMR, after tax	$ 2	$ (5)

NOTE 8 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES (continued)

The following tables present the Company's gross unrealized losses and fair values for bonds aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2022 and 2021 (in thousands):

	2022					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. governments	$ 4,817	$ 518	$ 3,093	$ 68	$ 7,910	$ 586
All other governments	748	2	—	—	748	2
U.S. special revenue and special assessment	6,153	847	—	—	6,153	847
Industrial and miscellaneous unaffiliated	85,111	7,144	15,070	2,778	100,181	9,922
Total	$ 96,829	$ 8,511	$ 18,163	$ 2,846	$ 114,992	$ 11,357

	2021					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds						
U.S. governments	$ 637	$ 4	$ 3,847	$ 19	$ 4,484	$ 23
Industrial and miscellaneous unaffiliated	25,499	517	198	2	25,697	519
Total	$ 26,136	$ 521	$ 4,045	$ 21	$ 30,181	$ 542

At December 31, 2022, the gross unrealized loss on bonds was comprised of approximately 213 different securities, which are included in the table above. Of the total amount of bond unrealized losses, $11,357 thousand or 100% is related to unrealized losses on investment grade securities. At December 31, 2021, the gross unrealized loss on bonds was comprised of approximately 47 different securities, which are included in the table above. Of the total amount of bond unrealized losses, $542 thousand, or 100%, is related to unrealized losses on 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 ("S&P"); or a comparable internal rating if an externally provided rating is not available. There were no unrealized losses on bonds with a rating below investment grade at December 31, 2022 and December 31, 2021, respectively.

The amount of gross unrealized losses for bonds where fair value had declined by 20% or more of the amortized cost, totaled $1,992 thousand. The period of time that each of these securities has continuously been below amortized cost by 20% or more consists of $1,798 thousand for six months or less, less than $194 thousand for greater than six months through 12 months, and no bonds 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 9 – RELATED PARTY TRANSACTIONS

Significant transactions entered into or between the Company and its parent and affiliates for the years ended December 31, 2022 and 2021 were as follows:

Ref #	Date of Transaction	Name of Related Party	Nature of Relationship	Type of Transaction	Description
1	Various	New York Life	Parent	Service and facility agreement	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.
2	November 16, 2015 (last amended on October 26, 2022)	New York Life	Parent	Revolving credit agreement	The Company has a revolving credit agreement with New York Life, under which the Company may borrow from New York Life an amount of up to $10,000 thousand. As of December 31, 2022 and 2021, the Company has not borrowed under this agreement.
3	April 1, 2000	New York Life Investors LLC ("NYL Investors")	Non-insurance affiliate	Investment advisory and administration services	The Company is a party to an investment advisory agreement with NYL Investors, a wholly-owned subsidiary of New York Life, whereby NYL Investors provides investment advisory and administrative services to the Company.
4	January 1, 2011	New York Life	Parent	Term life conversion agreement	The Company compensates New York Life for policy credits associated with converting the Company's term policies to permanent cash value life insurance policies issued by New York Life without any additional underwriting.
5	January 1, 2011	NYLIAC	Insurance affiliate	Term life conversion agreement	The Company compensates NYLIAC for policy credits associated with converting the Company's term policies to permanent cash value life insurance policies issued by NYLIAC without any additional underwriting.

At December 31, 2022 and 2021, the Company reported a net amount of $176 thousand and $151 thousand, 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.

In the ordinary course of business, the Company enters into reinsurance agreements with its parent and affiliates. Material reinsurance agreements have been disclosed in Note 11 – Reinsurance. In addition, the Company may enter into guarantees and/or keepwells with its parent and affiliates. Material guarantee agreements and/ or keep wells have been disclosed in Note 13 – Commitments and Contingencies.

NOTE 10 – INSURANCE LIABILITIES

Policy Reserves and Deposit Fund Liabilities

Reserves for life insurance policies are maintained principally using the 1980 and 2001 Commissioners' Standard Ordinary Mortality Tables under the net level premium method or the Commissioners' Reserve Valuation Method with valuation interest rates of 4.5% and 4.0%, respectively.

At December 31, 2022 and 2021, there were no changes to reserve basis.

The Company has established policy reserves 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 $171 thousand in 2022 and $167 thousand in 2021.

The Company waives deductions of deferred fractional premiums upon death of the insured and returns a portion of the final premium beyond the date of death. No surrender values are promised in excess of the total reserves. Certain substandard policies are valued on tables that are multiples of the standard table. Other substandard policies were

NOTE 10 - INSURANCE LIABILITIES (continued)

valued as equivalent to standard lives on the basis of insurance age. Additional reserves were held on account of anticipated extra mortality for policies subject to extra premiums.

At December 31, 2022 and 2021, the Company had $2,450 thousand and $2,850 thousand, 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 Arizona.

Tabular interest credited to policy reserves and the tabular less actual reserve released have been determined by formula as described in the NAIC instructions. The tabular cost has been determined by formula as described in the NAIC instructions adjusted for the difference in valuation mortality in different years between the tabular cost of mortality floor and the rest of the Regulation XXX calculation.

The withdrawal characteristics of deposit fund liabilities at book value without adjustment at December 31, 2022 and 2021 were $884 thousand and $930 thousand, respectively, which were all eligible for surrender and payable in cash to depositors.

Withdrawal Characteristics of Life Insurance Reserves

The following table reflects the withdrawal characteristics of life insurance reserves at December 31, 2022 and 2021 ($ in thousands):

	2022			2021		
	General Account			General Account		
	Account Value	Cash Value	Reserve	Account Value	Cash Value	Reserve
Subject to discretionary withdrawal, surrender values, or policy loans:						
Term policies with cash value	$ —	$ —	$ —	$ —	$ —	$ —
Miscellaneous reserves	—	—	—	—	—	—
Not subject to discretionary withdrawal or no cash values:						
Term policies without cash value	—	—	15,429	—	—	15,709
Accidental death benefits	—	—	30	—	—	32
Disability - active lives	—	—	2,477	—	—	2,658
Disability - disabled lives	—	—	32,335	—	—	31,155
Miscellaneous reserves	—	—	5,624	—	—	5,478
Total life insurance (gross)	$ —	$ —	$ 55,895	$ —	$ —	$ 55,032
Reinsurance ceded	—	—	10,126	—	—	10,286
Total life insurance (net)	$ —	$ —	$ 45,769	$ —	$ —	$ 44,746

NOTE 11 – REINSURANCE

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk. The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Life insurance reinsured was 67% and 66% of total life insurance in force at December 31, 2022 and 2021, respectively.

The effects of reinsurance on the accompanying Statutory Statements of Financial Position at December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Policy reserves:		
Direct	$ 55,895	$ 55,032
Ceded	(10,126)	(10,286)
Policy reserves	$ 45,769	$ 44,746
Policy claims:		
Direct	$ 2,579	$ 3,339
Ceded[1]	(1,739)	(2,208)
Policy claims	$ 840	$ 1,131
Reinsurance recoverable[2]	$ 1,689	$ 796

[1] Includes reinsurance recoverable related to unpaid losses of $1,079 thousand and $1,548 thousand at December 31, 2022 and 2021, respectively.
[2] The 2021 balance has been restated.

The effects of reinsurance on the accompanying Statutory Statements of Operations for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021
Premiums:		
Direct	$ 18,091	$ 13,437
Assumed	—	6
Ceded	(10,455)	(9,731)
Premiums	$ 7,636	$ 3,712
Benefit payments:		
Direct	$ 19,464	$ 19,249
Ceded	(12,603)	(11,352)
Benefit payments	$ 6,861	$ 7,897

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 NYLIAC. 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, NYLIAC and the Company. NYLAZ did not have any active inforce policies reinsured by NYLARC at December 31, 2022 and at December 31, 2021.

A stop loss agreement between New York Life and the Company is in effect. Under the stop loss agreement, New York Life reinsures the portion of any claim incurred by the Company in any calendar quarter that exceeds 10% of the Company's surplus, after taking external reinsurance into account. In addition, under the stop loss agreement, New York Life reinsures the portion of aggregate annual claims paid by the Company that exceeds $30,000 thousand, less any amount paid in a prior calendar quarter by New York Life to reimburse the Company for the portion of claims exceeding 10% of the Company's surplus. The premiums for this coverage were $178 thousand and $1 thousand for the years ended December 31, 2022 and 2021, respectively.

NOTE 12 – BENEFIT PLANS

The Company shares in the cost of the following plans sponsored by New York Life: (1) certain defined benefit pension plans for eligible employees and agents, (2) certain defined contribution plans for substantially all employees (3) certain postretirement life and health benefits for retired employees and agents including their eligible dependents, 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 cost allocated to the Company related to benefit plans is recorded under Operating expenses in the accompanying Statutory Statements of Operations.The Company's share of the cost of these plans was as follows for the years ended December 31, 2022 and 2021 (in thousands):

	2022	2021
Defined benefit pension	$ 176	$ 187
Defined contribution	30	33
Postretirement life and health	19	25
Postemployment	4	4
Total	$ 229	$ 249

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Support and Credit Agreements

The Company has a credit agreement with New York Life dated August 11, 2004, restated as of November 16, 2015 and subsequently amended, under which the Company may borrow from New York Life an amount of up to $10,000 thousand. During 2022 and 2021, the credit facility was not used, no interest was paid, and there was no outstanding balance due.

Litigation

The Company, along with New York Life and NYLIAC, is a defendant in one consolidated purported class action suit arising from its agency sales force. The lawsuit seeks, among other things, extra contractual damages. The parties have reached a settlement in principle which would not have a material adverse effect on the Company's financial position. The settlement is subject to court approval.

Liens

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

NOTE 14 - INCOME TAXES

The components of the net DTAs and DTLs for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022			2021			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	$ 4,799	$ 18	$ 4,817	$ 5,687	$ 24	$ 5,711	$ (888)	$ (6)	$ (894)
Statutory valuation allowance	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs	4,799	18	4,817	5,687	24	5,711	(888)	(6)	(894)
Nonadmitted DTAs	—	18	18	—	24	24	—	(6)	(6)
Subtotal net admitted DTAs	4,799	—	4,799	5,687	—	5,687	(888)	—	(888)
Gross DTLs	2,501	—	2,501	3,316	—	3,316	(815)	—	(815)
Net admitted DTAs	$ 2,298	$ —	$ 2,298	$ 2,371	$ —	$ 2,371	$ (73)	$ —	$ (73)

Net DTAs are non-admitted primarily because they are not expected to be realized within three years of the balance sheet date. The admitted portion of the net DTAs is included in net deferred tax assets in the accompanying Statutory Statements of Financial Position.

The admission calculation components for the years ended December 31, 2022 and 2021 were as follows (paragraph references throughout Note 14 are to paragraphs of SSAP No. 101) (in thousands):

	2022			2021			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
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):	$ 2,298	$ —	$ 2,298	$ 2,371	$ —	$ 2,371	$ (73)	$ —	$ (73)
Adjusted gross DTAs expected to be realized following the balance sheet date (Paragraph 11.b.i)	2,298	—	2,298	2,371	—	2,371	(73)	—	(73)
Adjusted gross DTAs allowed per limitation threshold (Paragraph 11.b.ii)	N/A	N/A	16,154	N/A	N/A	16,013	N/A	N/A	141
Adjusted gross DTAs (excluding the amount of DTAs from paragraphs 11.a and 11.b above) offset by gross DTLs (Paragraph 11.c)	2,501	—	2,501	3,316	—	3,316	(815)	—	(815)
DTAs admitted as the result of application of SSAP 101 (Totals of paragraphs 11.a, 11.b, 11.c).	$ 4,799	$ —	$ 4,799	$ 5,687	$ —	$ 5,687	$ (888)	$ —	$ (888)

NOTE 14 - INCOME TAXES (continued)

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 thousands):

	December 31,	
	2022	**2021**
Ratio percentage used to determine recovery period and threshold limitation amount.	7,676 %	9,074 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in paragraph 11.b.ii above.	$ 107,695	$ 106,750

There was no impact on the Company's adjusted gross and net admitted DTAs due to tax planning strategies at December 31, 2022 and 2021. The Company did not use reinsurance in its tax planning strategies.

The Company had no unrecognized DTLs at December 31, 2022 and 2021. 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.

Significant components of the current federal and foreign income taxes for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	**2021**	**Change**
Federal and foreign income tax expense [1]	$ 151	$ 352	$ (201)
Federal income tax on net capital gains	(4)	28	(32)
Total federal and foreign income taxes	$ 147	$ 380	$ (233)

[1] The Company had no investment tax credits for the years ended December 31, 2022 and 2021.

NOTE 14 - INCOME TAXES (continued)

The tax effects of temporary differences that give rise to DTAs and DTLs for the years ended December 31, 2022 and 2021 were as follows (in thousands):

	2022	2021	Change
DTAs			
Ordinary:			
Policyholder reserves	$ 2,345	$ 3,112	$ (767)
Deferred acquisition costs	2,380	2,505	(125)
Fixed assets	33	36	(3)
Other	41	34	7
Subtotal	4,799	5,687	(888)
Nonadmitted	—	—	—
Admitted ordinary DTAs	4,799	5,687	(888)
Capital:			
Investments	18	23	(5)
Nonadmitted	18	23	(5)
Admitted capital DTAs	—	—	—
Total admitted DTAs	4,799	5,687	(888)
DTLs			
Ordinary:			
Deferred and uncollected premiums	2,374	3,156	(782)
Investments	84	81	3
Policyholder reserves	40	74	(34)
Other	3	5	(2)
Subtotal	2,501	3,316	(815)
Capital:			
Investments	—	—	—
Total DTLs	2,501	3,316	(815)
Net admitted DTAs	$ 2,298	$ 2,371	$ (73)

Change in net deferred tax related to other items	$ (79)
Change in DTAs nonadmitted	$ 6
Change in net admitted DTAs	$ (73)

NOTE 14 - INCOME TAXES (continued)

The Company's federal and foreign income taxes and change in net DTAs for the years ended December 31, 2022 and 2021 differs from the amount obtained by applying the statutory rate to net gain from operations before federal income taxes for the following reasons (in thousands):

	2022	2021	Change
Net gain/(loss) from operations before federal income taxes at 21%	$ 252	$ (342)	$ 594
Net realized capital gains at 21%	(3)	20	(23)
Amortization of IMR	(18)	(32)	14
Nonadmitted assets	(5)	165	(170)
Other	—	(134)	134
Federal and foreign income taxes incurred and change in net deferred taxes during the year	$ 226	$ (323)	$ 549
Federal and foreign income tax expense reported in the Company's Statutory Statements of Operations	$ 151	$ 352	$ (201)
Capital gains tax (benefit)/expense incurred	(4)	28	(32)
Change in net DTAs	79	(703)	782
Federal and foreign income taxes incurred and change in net deferred taxes during the year	$ 226	$ (323)	$ 549

For years ended December 31, 2022 and 2021 the Company's federal income tax return is consolidated with New York Life, NYLIAC, NYLIFE LLC, New York Life Enterprises LLC, NYL Investments, NYL Investors, LLC, LINA, NYLGICNY, and LINA Benefit Payments, Inc. Refer to Note 3 – Significant Accounting Policies - Federal Income Taxes.

As a member of New York Life's consolidated group, the Company's federal income tax returns are routinely audited 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 2013, and tax years 2014 through 2018 are currently under examination. There were no material effects in the Company's Statement of Operations as a result of these audits.

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

The Company did not have any operating loss and tax credit carry forwards available for tax purposes. For the years ended December 2022, 2021, and 2020, the Company's income taxes incurred in current and prior years that will be available for recoupment in the event of future net losses were as follows (in thousands):

Year 2022	$ —
Year 2021	$ 90
Year 2020	$ 117

The Inflation Reduction Act ("IRA") of 2022 was enacted on August 16, 2022. The IRA includes a new Federal corporate alternative minimum tax ("CAMT"), effective in 2023, that is based on the adjusted financial statement income set forth on the applicable financial statement of an applicable corporation. The NAIC adopted Interpretation ("INT") 22-02 to apply to December 31, 2022. Following that guidance, the Company has not determined as of the reporting date if it will be an applicable corporation and if it will be liable for CAMT in 2023. The accompanying statutory financial statements do not include an estimated impact of the CAMT because a reasonable estimate cannot be made.

At December 31, 2022, and 2021, the Company recorded a current federal income tax (payable)/receivable of $60 thousand and $55 thousand, respectively, which is included in the Statutory Statements of Financial Position.

NOTE 14 - INCOME TAXES (continued)

At December 31, 2022, the Company had no protective tax deposits on deposit with the IRS under Section 6603 of the Internal Revenue Service Code.

NOTE 15 – CAPITAL AND SURPLUS

Capitalization

The Company has 30,000 shares authorized, with a par value of $100 per share with 25,000 shares issued and outstanding. All shares are common stock and are owned by New York Life. The Company has no preferred stock.

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.

NOTE 16 - DIVIDENDS TO PARENT

The Company is subject to restrictions on the payment of dividends to New York Life. Under Arizona Insurance Law, cash dividends to stockholders may only be paid out of an insurer's available surplus funds which are derived from realized net profits on its business. Stock dividends may be paid out of any available surplus funds that exceed the aggregate amount of surplus loaned to the insurer. No surplus funds have been loaned to the Company. In addition, no extraordinary dividend (as described under Arizona Revised Statute Section 20-481.19) may be paid or distributed to stockholders without prior notice to and approval of the Department. Extraordinary dividends are defined as any dividend or distribution or cash or other property, whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the lesser of (1) ten 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). Dividends may be declared by the Board of Directors of the Company from available surplus, as it deems appropriate, on a non-cumulative basis.

The Company had available surplus funds of $8,993 thousand and $8,121 thousand at December 31, 2022 and 2021, respectively, from which to pay dividends. During the year ended December 31, 2022 and 2021, the Company did not pay a dividend to its sole shareholder, New York Life.

NOTE 17 – WRITTEN PREMIUMS

Deferred and uncollected life insurance premiums at December 31, 2022 and 2021 were as follows (in thousands):

	2022		2021	
	Gross	**Net of Loading**	**Gross**	**Net of Loading**
Ordinary renewal	$ 7,304	$ 12,073	$ 7,737	$ 12,279

Based upon the Company experience, the amount of premiums that may become uncollectible and result in a potential loss is not material to the Company’s financial position. At December 31, 2022 and 2021 the Company nonadmitted $105 thousand and $63 thousand, respectively, of premiums that were over 90 days past due.

NOTE 18 – SUBSEQUENT EVENTS

The Company intends to begin marketing a new term life product in 2023. The Company has applied for reactivation of its license in the State of Arizona. Once the license is reactivated, the Company intends to begin marketing a new term life product.

The Company received a capital contribution of $250,000 thousand from New York Life on March 31, 2023.

At April 3, 2023, the date the financial statements were available to be issued, other than what was disclosed prior, there have been no other 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.

GLOSSARY OF TERMS

Term	Description
ABS	Asset-backed securities
AVR	Asset valuation reserve
CAMT	Corporate Alternative Minimum Tax
DTA	Deferred tax asset(s)
DTL	Deferred tax liability(ies)
IMR	Interest maintenance reserve
INT	Interpretation 22-02 adopted by the NAIC
IRA	The Inflation Reduction Act of 2022
IRS	Internal Revenue Service
NAIC	National Association of Insurance Commissioners
NAIC SAP	The National Association of Insurance Commissioners' Accounting Practices and Procedures Manual
New York Life	New York Life Insurance Company
NYLARC	New York Life Agents Reinsurance Company
NYLIAC	New York Life Insurance and Annuity Corporation
NYL Investors	New York Life Investors LLC
OTTI	Other-than-temporary impairment(s)
S&P	Standard & Poor's
SSAP	Statement of statutory accounting principles
The Company	NYLIFE Insurance Company of Arizona
The Department	Arizona Department of Insurance and Financial Institutions
U.S. GAAP	Accounting principles generally accepted in the United States of America