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

FINANCIAL STATEMENTS

(STATUTORY BASIS)

DECEMBER 31, 2020 and 2019

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Report of Independent Auditors

To the Board of Directors of NYLIFE Insurance Company of Arizona:

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, 2020 and 2019, 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 Arizona Department of Insurance. 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 Arizona Department of Insurance, 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.

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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, 2020 and 2019, 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 financial position of the Company as of December 31, 2020 and 2019, and the related statutory statements of operations, of changes in capital and surplus, and of cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the Arizona Department of Insurance described in Note 2.

Emphasis of Matter

As disclosed in Note 3, 9, 11, 15 and 16 to the financial statements, the Company has entered into significant related party transactions with its affiliates. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

New York, New York
April 15, 2021

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

STATUTORY STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2020	**2019**
	(in thousands)	
Assets		
Bonds	$ 138,326	$ 137,499
Cash, cash equivalents and short-term investments	1,362	4,398
Total cash and invested assets	139,688	141,897
Deferred and uncollected premiums	14,559	18,202
Investment income due and accrued	848	905
Reinsurance recoverables	1,354	621
Net deferred tax assets	1,676	2,063
Federal income taxes receivable	—	56
Other assets	34	53
Total assets	$ 158,159	$ 163,797
Liabilities, Capital and Surplus		
Liabilities:		
Policy reserves	$ 43,980	$ 51,282
Deposit funds	1,129	1,291
Policy claims	1,437	1,513
Payable to parent and affiliates	400	821
Federal income taxes payable	277	—
Other liabilities	764	274
Asset valuation reserve	513	474
Total liabilities	48,500	55,655
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	8,659	7,142
Total capital and surplus	109,659	108,142
Total liabilities, capital and surplus	$ 158,159	$ 163,797

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

STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2020	**2019**
	(in thousands)	
Income		
Premiums	$ 8,820	$ 11,364
Net investment income	4,308	4,525
Commissions and expense allowances on reinsurance ceded	857	962
Total income	13,985	16,851
Benefits and expenses		
Death benefits	4,454	8,475
Conversion charges paid to parent and affiliate	1,722	3,730
Other benefit payments	1,076	1,013
Total benefit payments	7,252	13,218
Reductions to policy reserves	(4,780)	(5,654)
Operating expenses	3,097	3,408
Total benefits and expenses	5,569	10,972
Gain from operations before federal and foreign income taxes	8,416	5,879
Federal and foreign income tax expense	1,158	1,169
Net gain from operations	7,258	4,710
Net realized capital gains, after taxes and transfers to interest maintenance reserve	2	8
Net income	$ 7,260	$ 4,718

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,	
	2020	**2019**
	(in thousands)	
Capital and surplus, beginning of year	$ 108,142	$ 113,429
Net income	7,260	4,718
Change in net deferred income tax	(376)	(45)
Change in nonadmitted assets	(329)	34
Change in asset valuation reserve	(38)	6
Dividends to parent	(5,000)	(10,000)
Capital and surplus, end of year	$ 109,659	$ 108,142

See accompanying notes to financial statements

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

STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2020	**2019**
	(in thousands)	
Cash flow from operating activities:		
Premiums received	$ 10,015	$ 11,512
Net investment income received	4,494	3,823
Commissions and expense allowances on reinsurance ceded	865	961
Total received	15,374	16,296
Benefits and other payments	7,393	13,012
Operating expenses	3,491	3,570
Federal income taxes paid (received)	923	(277)
Total paid	11,807	16,305
Net cash from (used in) operating activities	3,567	(9)
Cash flow from investing activities:		
Proceeds from investments sold, matured or repaid	16,731	25,424
Cost of investments acquired	(17,155)	(15,246)
Net cash (used in) from investing activities	(424)	10,178
Cash flow from financing and miscellaneous activities:		
Net outflows from deposit contracts	(164)	(113)
Dividends to parent	(5,000)	(10,000)
Other miscellaneous (uses) sources	(1,015)	465
Net cash used in financing and miscellaneous activities	(6,179)	(9,648)
Net (decrease) increase in cash, cash equivalents and short-term investments	(3,036)	521
Cash, cash equivalents and short-term investments, beginning of year	4,398	3,877
Cash, cash equivalents and short-term investments, end of year	$ 1,362	$ 4,398
Supplemental disclosures of cash flow information:		
Non-cash activities during the year:		
Transfer of investments and exchange of bonds to bonds	$ 5,697	$ —
Capitalized interest on bonds	$ 91	$ 144

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.

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 expense during the period. Actual results may differ from those estimates.

Bonds

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.

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 a discussion of the valuation approach and methods for bonds.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

The interest method for loan-backed and structured securities, which are included in bonds, uses current assumptions of projected cash flows. Amortization of the premium or accretion of discount from the purchase of these securities considers the estimated timing and amount of cash flows of the underlying loans, including prepayment assumptions based on data obtained from external sources or internal estimates. Projected future cash flows are updated monthly, and the amortized cost and effective yield of the securities are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. For high credit quality loan-backed and structured securities (those rated AA or above at the date of acquisition), the adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method.

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

Other than Temporary Impairments

The cost basis of bonds is adjusted for impairments in value when it is 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 the 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 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 interest maintenance reserve ("IMR") if interest related.

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, 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash, Cash Equivalents and Short-term Investments

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

Asset Valuation Reserve and IMR

The Asset Valuation Reserve ("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. Commissions 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.

Net Investment Income

Income from investments, including amortization of premium, accrual of discount and similar items, 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 discussion of reserves in excess of minimum NAIC requirements.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Federal Income Taxes

Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. Deferred federal income tax assets ("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 taxes related to unrealized gains and losses on investments, which are 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.

Other Assets and Liabilities

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

Other liabilities consist primarily 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 consists 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 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 novel coronavirus ("COVID-19") pandemic continues to spread in the United States and throughout the world, and has created and may continue to create extreme stress and disruption in the global economy and financial markets, as well as elevated mortality and morbidity experience for the global population. The ultimate extent of the impact will depend on numerous factors, all of which are highly uncertain and cannot be predicted. These factors include the length and severity of the outbreak, including the impact of new variants of the virus and the efficacy of vaccines and therapeutic treatments in combating the virus, the effectiveness of responses to the pandemic taken by governments and private sector businesses, and the impacts on New York Life's customers, employees and vendors. The Company continues to monitor the economic environment and other potential impacts relating to the COVID-19 pandemic as it relates to the risks described below on its insurance liabilities, investment portfolio and business operations.

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 and assets under management are exposed to market risk, policyholder behavior risk and mortality/longevity risk. Furthermore, the level of sales of the Company's insurance 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 technology systems and solutions to conduct business and to retain, store, protect, and manage confidential information. The failure of the Company's technology systems and solutions, or those of a vendor, for any reason has the potential to disrupt its operations, result in the loss of customer business, damage the Company's reputation, and expose the Company to litigation and regulatory action, all of which could adversely impact its profitability.

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 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 2020 or 2019.

NOTE 5 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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 GAAP adopted guidance, which provides optional expedients and exceptions for applying current accounting guidance to contracts 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 is not expected to significantly impact the Company's financial condition or results of operations.

In 2018, the NAIC adopted revisions to the disclosure requirements under SSAP 51R “Life Contracts,” SSAP 52 “Deposit-Type Contracts” and SSAP 61 “Life, Deposit-type and Accident and Health Reinsurance.” The adopted revisions require new disclosures on liquidity for life products. The new disclosures, which were required in 2019, have been included in Note 10 - Insurance Liabilities.

NOTE 6 - INVESTMENTS

Bonds

The carrying value and estimated fair value of bonds at December 31, 2020 and 2019, by contractual maturity are presented below (in thousands):

	2020		2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Due in one year or less	$ 9,509	$ 9,733	$ 9,650	$ 9,708
Due after one year through five years	72,235	76,813	70,288	72,431
Due after five years through ten years	48,767	53,513	49,307	51,601
Due after ten years	7,815	8,423	8,254	8,459
Total	$ 138,326	$ 148,482	$ 137,499	$ 142,199

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, there were cash equivalents with a carrying value of $1,563 thousand and $4,964 thousand at December 31, 2020 and 2019, respectively. The Company did not have any short-term investments at December 31, 2020 and 2019, respectively. Carrying value approximates fair value for these investments.

NOTE 6 – INVESTMENTS (continued)

At December 31, 2020 and 2019, the distribution of gross unrealized gains and losses on bonds were as follows (in thousands):

	2020			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. governments	$ 12,714	$ 586	$ 3	$ 13,297
All other governments	1,250	46	—	1,296
U.S. special revenue and special assessment	10,207	1,068	—	11,275
Industrial and miscellaneous unaffiliated	114,155	8,467	8	122,614
Total	$ 138,326	$ 10,167	$ 11	$ 148,482

	2019			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. governments	$ 13,390	$ 293	$ 16	$ 13,667
All other governments	1,249	29	—	1,278
U.S. special revenue and special assessment	10,531	424	58	10,897
Industrial and miscellaneous unaffiliated	112,329	4,035	7	116,357
Total	$ 137,499	$ 4,781	$ 81	$ 142,199

Assets on Deposit

At December 31, 2020 and 2019, the Company's restricted assets were as follows ($ in thousands):

2020						
	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	$ 3,557	$ 3,388	$ 169	$ 3,557	2.236 %	2.249 %

2019						
	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	$ 3,388	$ 1,883	$ 1,505	$ 3,388	2.061 %	2.068 %

NOTE 7 – 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.

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

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, 2020 and 2019.

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 of 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 7 – FAIR VALUE MEASUREMENTS (continued)

The following table presents the carrying value and estimated fair values of the Company's financial instruments at December 31, 2020 and 2019 (in thousands):

	2020					
	Fair Value	Carrying Value	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 148,482	$ 138,326	$ —	$ 148,482	$ —	$ —
Cash, cash equivalents and short-term investments	1,362	1,362	174	1,188	—	—
Investment income due and accrued	848	848	—	848	—	—
Total assets	$ 150,692	$ 140,536	$ 174	$ 150,518	$ —	$ —
Liabilities:						
Payable to parent and affiliates	$ 400	$ 400	$ —	$ 400	$ —	$ —
Premiums paid in advance	98	98	—	98	—	—
Total liabilities	$ 498	$ 498	$ —	$ 498	$ —	$ —

	2019					
	Fair Value	Carrying Amount	Level 1	Level 2	Level 3	Not Practicable
Assets:						
Bonds	$ 142,199	$ 137,499	$ —	$ 142,199	$ —	$ —
Cash, cash equivalents and short-term investments	4,398	4,398	3	4,395	—	—
Investment income due and accrued	905	905	—	905	—	—
Total assets	$ 147,502	$ 142,802	$ 3	$ 147,499	$ —	$ —
Liabilities:						
Payable to parent and affiliates	$ 821	$ 821	$ —	$ 821	$ —	$ —
Premiums paid in advance	108	108	—	108	—	—
Total liabilities	$ 929	$ 929	$ —	$ 929	$ —	$ —

Bonds

Securities priced using a pricing service are classified as Level 2. The pricing service generally uses an income-based valuation approach by 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 recognizable, reliable and well regarded benchmarks by participants in the financial 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 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.

NOTE 7 – FAIR VALUE MEASUREMENTS (continued)

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.

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, 2020 and 2019 were as follows (in thousands):

	2020	2019
Bonds	$ 4,342	$ 4,567
Cash, cash equivalents and short-term investments	29	119
Gross investment income	4,371	4,686
Investment expenses	(147)	(152)
Net investment income	4,224	4,534
Amortization of IMR	84	(9)
Net investment income, including amortization of IMR	$ 4,308	$ 4,525

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 at December 31, 2020 and 2019 ($ in thousands):

	2020	2019
	General Account	
Number of cusips	9	2
Aggregate amount of investment income	$ 90	$ 15

Proceeds from investments in bonds sold were $4,430 thousand and $19,079 thousand for the years ended December 31, 2020 and 2019, respectively. Gross gains of $470 thousand and $438 thousand in 2020 and 2019, respectively, and gross losses of $0 thousand and $22 thousand in 2020 and 2019, respectively, were realized on these sales. The Company computes gains and losses on sales under the specific identification method.

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

For the years ended December 31, 2020 and 2019, net investment gains were as follows (in thousands):

	2020	2019
Bonds	$ 468	$ 420
Other-than-temporary impairments	—	—
Net realized capital gains before tax and transfers to the IMR	468	420
Less:		
Capital gains tax expense	98	81
Net realized capital gains transferred to IMR, after tax	368	331
Net realized capital gains after transfers to the IMR, after tax	$ 2	$ 8

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, 2020 and 2019 (in thousands):

	2020					
	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	$ 4,468	$ 3	$ —	$ —	$ 4,468	$ 3
Industrial and miscellaneous unaffiliated	1,545	8	—	—	1,545	8
Total	$ 6,013	$ 11	$ —	$ —	$ 6,013	$ 11

	2019					
	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	$ 1,742	$ 14	$ 122	$ 2	$ 1,864	$ 16
All other governments	—	—	—	—	—	—
U.S. special revenue and special assessment	3,455	58	—	—	3,455	58
Industrial and miscellaneous unaffiliated	4,115	7	3,716	—	7,831	7
Total	$ 9,312	$ 79	$ 3,838	$ 2	$ 13,150	$ 81

At December 31, 2020, the gross unrealized loss on bonds was comprised of approximately 6 different securities, which are reflected in the table above. Of the total amount of bond unrealized losses, $11 thousand or 100% is related to unrealized losses on investment grade securities. At December 31, 2019, the gross unrealized loss on bonds was comprised of approximately 20 different securities, which are reflected in the table above. Of the total amount of bond unrealized losses, $81 thousand or 100.0% 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&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, 2020 and December 31, 2019, respectively.

There were no bonds where fair value had declined by 20% or more of the amortized cost at December 31, 2020 and 2019.

NOTE 9 – RELATED PARTY TRANSACTIONS

Significant transactions entered into or between the Company and its parent and affiliates for the years ended December 31, 2020 and 2019 were as follows (in thousands):

Ref #	Date of Transaction	Name of Related Party	Nature of Relationship	Type of Transaction	Due Date	Reporting Period Date Amount Due From (To)		Income / (Expenses)	
						2020	2019	2020	2019
1	Various	New York Life	Parent	Service and facility agreement	Settled in cash within 90 days	$(62)	$(49)	$(2,700)	(2,651)
2	11/16/2015	New York Life	Parent	Credit agreement	N/A	$—	$—	$—	$—
3	4/1/2000	NYL Investors	Non-insurance affiliate	Investment advisory and administration services	Quarterly billing with payment due within 10 days of receipt	$(88)	$(84)	$(147)	(152)
4	Various	New York Life	Parent	Term life conversion agreement	N/A	$—	$—	$(424)	(573)
5	Various	NYLIAC	Insurance affiliate	Term life conversion agreement	N/A	$(253)	$(692)	$(1,298)	$(3,157)

1. 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. The Company has a credit agreement with New York Life, restated November 16, 2015, under which the Company may borrow from New York Life an amount of up to $10,000,000. As of December 31, 2020, the Company has not used the credit agreement.

3. The Company is a party to an investment advisory agreement with NYL Investors LLC ("NYL Investors"), a wholly-owned subsidiary of New York Life, whereby NYL Investors provides investment advisory and administrative services to the Company.

4. 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. The Company compensates 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 NYLIAC without any additional underwriting.

The following discloses additional information regarding significant transactions entered into by the Company with its parent and affiliates involving services for the years ended December 31, 2020 and 2019 (in thousands):

Name of Related Party	Overview Description	Amount Charged		Amount Based on Allocation of Costs or Market Rates		Amount Charged, Modified or Waived (Yes/No)
		2020	2019	2020	2019	
New York Life	Service and facility agreement	$(2,700)	$(2,651)	$(2,700)	$(2,651)	No
NYL Investors	Investment advisory and administrative services	$(147)	$(152)	$(147)	$(152)	No

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

The Company did not enter into any agreements with its parent and/or affiliates involving an exchange of assets or liabilities.

The following discloses the total amount due from/(to) related parties regarding significant transactions for the years ended December 31, 2020 and 2019 (in thousands):

2020

Name of Related Party	Aggregate Reporting Period Amount Due From	Aggregate Reporting Period Amount Due To	Amount Offset in Financial Statement (if qualifying)	Net Amount Recoverable / (Payable) by Related Party	Admitted Recoverable
New York Life	$—	$(62)	$—	$(62)	$—
NYL Investors	$—	$(88)	$—	$(88)	$—
NYLIAC	$3	$(253)	$—	$(250)	$—

2019

Name of Related Party	Aggregate Reporting Period Amount Due From	Aggregate Reporting Period (Amount Due To)	Amount Offset in Financial Statement (if qualifying)	Net Amount Recoverable / (Payable) by Related Party	Admitted Recoverable
New York Life	$7	$(49)	$—	$(42)	$—
NYL Investors	$—	$(84)	$—	$(84)	$—
NYLIAC	$4	$(692)	$—	$(688)	$—

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, 2020 and 2019, 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 $41 thousand in 2020 and $26 thousand in 2019.

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

At both December 31, 2020 and 2019, the Company had $450 thousand 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, 2020 and 2019 were $1,129 thousand and $1,291 thousand, respectively.

NOTE 10 - INSURANCE LIABILITIES (continued)

At December 31, 2020 and 2019, deposit fund liabilities of $1,129 thousand and $1,291 thousand, respectively, were all eligible for surrender and payable in cash to depositors.

Withdrawal Characteristics of Life Insurance Reserves

The following table reflect the withdrawal characteristics of life insurance reserves at December 31, 2020 and 2019 ($ in thousands):

	2020			2019		
	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	—	—	18,523	—	—	25,270
Accidental death benefits	—	—	35	—	—	46
Disability - active lives	—	—	2,915	—	—	3,138
Disability - disabled lives	—	—	30,232	—	—	28,480
Miscellaneous reserves	—	—	3,636	—	—	7,912
Total life insurance (gross)	$ —	$ —	$ 55,341	$ —	$ —	$ 64,846
Reinsurance ceded	—	—	11,361	—	—	13,564
Total life insurance (net)	$ —	$ —	$ 43,980	$ —	$ —	$ 51,282

NOTE 11 – REINSURANCE

The Company has entered 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 62% and 56% of total life insurance in force at December 31, 2020 and 2019, respectively. The reserve reductions taken for life insurance reinsured at December 31, 2020 and 2019 were $11,361 thousand and $13,564 thousand, respectively.

The effects of reinsurance for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019
Premiums:		
Direct	$ 19,453	$ 24,244
Assumed	49	106
Ceded	(10,682)	(12,986)
Net premiums	$ 8,820	$ 11,364
Policyholders' benefits ceded	$ 8,908	$ 10,050
Reinsurance recoverables, at December 31	$ 1,354	$ 621

NOTE 11 - REINSURANCE (continued)

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.

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 million, 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 $13 thousand and $31 thousand for the years ended December 31, 2020 and 2019, respectively.

NOTE 12 – 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 cost allocated to the Company related to benefit plans is recorded under operating expense 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, 2020 and 2019 (in thousands):

	2020	2019
Postretirement life and health	$ 30	$ 30
Defined benefit pension	137	152
Defined contribution	32	31
Total	$ 199	$ 213

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Support and Credit Agreements

The Company has a credit agreement with New York Life dated August 11, 2004, and restated November 16, 2015, under which the Company may borrow from New York Life an amount of up to $10,000 thousand. During 2020 and 2019, 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. Notwithstanding the uncertain nature of litigation, the outcome of which cannot be predicted, the Company believes that the ultimate liability that could result from this litigation would not have a material adverse effect on the Company's financial position; however, it is possible that a settlement or adverse determination in this action or other proceedings in the future could have a material adverse effect on the Company's operating results for a given year.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (continued)

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, 2020 and 2019 were as follows (in thousands):

	2020			2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross DTAs	$ 5,789	$ 15	$ 5,804	$ 8,231	$ 6	$ 8,237	$ (2,442)	$ 9	$ (2,433)
Statutory valuation allowance	—	—	—	—	—	—	—	—	—
Adjusted gross DTAs	5,789	15	5,804	8,231	6	8,237	(2,442)	9	(2,433)
Nonadmitted DTAs	—	15	15	—	4	4	—	11	11
Subtotal net admitted DTAs	5,789	—	5,789	8,231	2	8,233	(2,442)	(2)	(2,444)
Gross DTLs	4,113	—	4,113	6,168	2	6,170	(2,055)	(2)	(2,057)
Net admitted DTAs	$ 1,676	$ —	$ 1,676	$ 2,063	$ —	$ 2,063	$ (387)	$ —	$ (387)

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, 2020 and 2019 are as follows (paragraph references throughout Note 14 are to paragraphs of SSAP No. 101) (in thousands):

	2020			2019			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Federal income taxes paid in prior years recoverable through loss carrybacks (Paragraph 11.a)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
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):	1,676	—	1,676	2,063	—	2,063	(387)	—	(387)
Adjusted gross DTAs expected to be realized following the balance sheet date (Paragraph 11.b.i)	1,676	—	1,676	2,063	—	2,063	(387)	—	(387)
Adjusted gross DTAs allowed per limitation threshold (Paragraph 11.b.ii)	N/A	N/A	16,197	N/A	N/A	15,912	N/A	N/A	285
Adjusted gross DTAs (excluding the amount of DTAs from paragraphs 11.a and 11.b above) offset by gross DTLs (Paragraph 11.c)	4,113	—	4,113	6,168	2	6,170	(2,055)	(2)	(2,057)
DTAs admitted as the result of application of SSAP 101 (Totals of paragraphs 11.a, 11.b, 11.c).	$ 5,789	$ —	$ 5,789	$ 8,231	$ 2	$ 8,233	$ (2,442)	$ (2)	$ (2,444)

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,	
	2020	**2019**
Ratio percentage used to determine recovery period and threshold limitation amount.	8,605 %	5,700 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in paragraph 11.b.ii above.	$ 107,983	$ 106,080

There was no impact on the Company's adjusted gross and net admitted DTAs due to tax planning strategies at December 31, 2020 and 2019. The Company did not use reinsurance in its tax planning strategies.

The Company had no unrecognized DTL's at December 31, 2020 and 2019. At December 31, 2019, the Company had no adjustments of DTAs or DTLs for enacted changes in tax laws or rates, or a change in the tax status.

Additionally, the Company had no adjustments to gross DTAs because of a change in circumstances that causes a change in judgment about the realizability of the related DTAs.

Significant components of the current federal income tax expense incurred for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019	Change
Federal current income tax expense [1]	$ 1,158	$ 1,169	$ (11)
Federal income tax on net capital gains	98	81	17
Total federal income tax expense incurred	$ 1,256	$ 1,250	$ 6

[1] The Company had no investment tax credits for the years ended December 31, 2020 and 2019.

NOTE 14 - INCOME TAXES (continued)

The tax effects of temporary differences that give rise to DTAs and DTLs for the years ended December 31, 2020 and 2019 were as follows (in thousands):

	2020	2019	Change
DTAs			
Ordinary:			
Policyholder reserves	$ 2,876	$ 5,082	$ (2,206)
Deferred acquisition costs	2,677	2,977	(300)
Fixed assets	38	40	(2)
Other	198	132	66
Subtotal	5,789	8,231	(2,442)
Nonadmitted	—	—	—
Admitted ordinary DTAs	5,789	8,231	(2,442)
Capital:			
Investments	15	6	9
Nonadmitted	15	4	11
Admitted capital DTAs	—	2	(2)
Total admitted DTAs	5,789	8,233	(2,444)
DTLs			
Ordinary:			
Deferred and uncollected premiums	3,939	5,614	(1,675)
Investments	69	61	8
Policyholder reserves	98	493	(395)
Other	7	—	7
Subtotal	4,113	6,168	(2,055)
Capital:			
Investments	—	2	(2)
Total DTLs	4,113	6,170	(2,057)
Net admitted DTAs	$ 1,676	$ 2,063	$ (387)
Deferred income tax benefit on change in net unrealized capital gains and losses			$ —
Decrease in net deferred tax related to other items			(376)
Change in DTAs nonadmitted			(11)
Total change in net admitted DTAs			$ (387)

NOTE 14 - INCOME TAXES (continued)

The Company's income tax expense for the years ended December 31, 2020 and 2019 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):

	2020	2019	Change
Net gain from operations before federal income taxes at 21%	$ 1,767	$ 1,235	$ 532
Net realized capital gains at 21%	98	88	10
Amortization of IMR	(17)	2	(19)
Nonadmitted assets	(67)	(30)	(37)
Other	(149)	—	(149)
Income tax incurred and change in net DTAs during period	$ 1,632	$ 1,295	$ 337
Federal income taxes reported in the Statutory Statements of Operations	$ 1,158	$ 1,169	$ (11)
Capital gains tax expense incurred	98	81	17
Change in net deferred income taxes	376	45	331
Total statutory income tax expense	$ 1,632	$ 1,295	$ 337

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 2010 and tax years 2011 through 2013 are currently under examination. There were no material effects on the Company's 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. For the tax years ended December 31, 2020 and 2019, the Company had $98 thousand and $92 thousand, respectively, of income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses.

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

Enactment of the CARES Act did not have a financial impact on the Company.

The Company's federal income tax return is consolidated with New York Life, NYLIAC, NYLIFE LLC, New York Life Enterprises LLC, NYL Investments, and NYL Investors. Effective January 1, 2021, the following entities will be included in the consolidated return: Life Insurance Company of North America ("LINA"), New York Life Group Insurance Company of NY ("NYLGICNY"), and LINA Benefit Payments, Inc. Refer to Note 3 – Significant Accounting Policies - Federal Income Taxes.

At December 31, 2020, and 2019, the Company recorded a current federal income taxes payable of $277 thousand and receivable of $56 thousand, respectively, which is included in the Statutory Statements of Financial Position.

At December 31, 2020, 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 all owned by New York Life. The Company has no preferred stock.

NOTE 15 - CAPITAL AND SURPLUS (continued)

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 $8,659 thousand and $7,142 thousand at December 31, 2020 and 2019, respectively, from which to pay dividends. The maximum amount of dividends that may be paid without prior notice to and approval of the Department before December 22, 2021 is $2,258 thousand and on or after December 23, 2021 is $7,258 thousand. On December 22, 2020, the Company paid a dividend in the amount of $5,000 thousand to its sole shareholder, New York Life. On December 31, 2019, the Company paid a dividend of $10,000 thousand to its sole shareholder, New York Life. On an aggregate basis, the dividends were deemed an extraordinary dividend. The Department was informed and approved the dividends.

NOTE 17 – WRITTEN PREMIUMS

Deferred and uncollected life insurance premiums at December 31, 2020 and 2019, were as follows (in thousands):

	2020		2019	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary renewal	$ 12,237	$ 15,030	$ 13,443	$ 18,758

Based upon 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, 2020 and 2019, respectively, the Company nonadmitted $471 thousand and $556 thousand of premiums that were over 90 days past due.

NOTE 18 – SUBSEQUENT EVENTS

At April 15, 2021, 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.

GLOSSARY OF TERMS

Term	Description
the Department	Arizona Department of Insurance and Financial Institutions
AVR	Asset valuation reserve
DTA	Deferred tax asset(s)
DTL	Deferred tax liability(ies)
NYLGICNY	New York Life Group Insurance Company of NY
IMR	Interest maintenance reserve
IRS	Internal Revenue Service
LINA	Life Insurance Company of North America
NAIC	National Association of Insurance Commissioners
NAIC SAP	The National Association of Insurance Commissioners' Accounting Practices and Procedures Manual
NYLARC	New York Life Agents Reinsurance Company
NYLIAC	New York Life Insurance and Annuity Corporation
NYL Investors	NYL Investors LLC
SSAP	Statement of statutory accounting principles
U.S. GAAP	Accounting principles generally accepted in the United States of America