We’ll help you get there™

MassMutual Financial Group 2006 Annual Report

2006 ANNUAL REPORT

LONG-TERM RELATIONSHIPS – INNOVATIVE SOLUTIONS

About our cover:
MassMutual has provided generations of protection for this Georgia family. Pictured here is policyholder and beneficiary Marie Hilliard, with her three-year-old great-granddaughter, Abby.

To learn more about MassMutual, we invite you to visit our Web site at www.massmutual.com.
Raleigh Lang (left) and Katheigh Degen, twin sisters who run their Kansas City, Missouri, business together, have been MassMutual financial professionals for more than 20 years.

Tom Carstens, a MMLISI investment advisor representative in New York City, has been affiliated with MassMutual for more than 16 years.

Three-year-old Abby, shown on our cover with her great-grandmother, is part of a Georgia family that has received generations of protection from MassMutual.

More than 155 years of building relationships.
Boston-based Eric Fallon (left), OppenheimerFunds wholesaler, and C.J. Millett, MassMutual financial professional, have worked together for the past nine years.

MassMutual Japan, celebrating its 100th anniversary in 2007, provides customer assistance and support through service center professionals such as Ms. Imai.


MassMutual. We’ll help you get there.™
Key 2006 accomplishments include:

- Record dividends to eligible participating policyholders of $1.2 billion
- $456 billion in assets under management at year-end 2006
- Premium and other deposits totaled $26.3 billion
- Strong results in our U.S. insurance business, with sales of $1.6 billion, up 36 percent
- Number 92 on Fortune 500® (Fortune magazine, April 17, 2006)
- Ranked among America’s Most Admired Companies® in its industry category by Fortune magazine (March 19, 2007)
- More than $7.6 million in donations to our community
- Named as a Working Mother magazine 100 Best Companies (October 2006)

Financial Strength Ratings
MassMutual builds confidence among policyholders with outstanding financial performance. Financial strength ratings are a key measure of a company’s ability to meet its financial obligations to its policyholders, and MassMutual’s financial strength ratings are among the highest of any company in any industry.

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Rating Description</th>
</tr>
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<tbody>
<tr>
<td>A.M. Best Company</td>
<td>A++ (Superior)</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>AAA (Exceptionally Strong)</td>
</tr>
<tr>
<td>Moody’s Investors Service</td>
<td>Aa1 (Excellent)</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>AAA (Extremely Strong)</td>
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1) Assets under management includes assets and certain external investment funds managed by our subsidiaries.
2) Premium and other deposits include the premium of our worldwide insurance operations and deposits made into certain external investment funds managed by our subsidiaries.
3) U.S. insurance results do not include retail annuities, which are reported in Retirement.
4) This information is current as of March 1, 2007. Ratings are subject to change. Ratings apply to MassMutual and its subsidiaries C.M. Life Insurance Company and MML Bay State Life Insurance Company.
5) Trust services provided by MassMutual Trust Company, FSB, a wholly owned stock subsidiary of MassMutual.
6) Retirement Services Intermediaries 4 - Brightwork Partners LLC, released November 2005.
8) International products and services are not available in the United States.
### Our Relationships
- Individuals
- Businesses and business owners
- Key business executives
- Employee benefit plan sponsors
- Financial professionals

### Our Strengths
- A network of more than 4,000 highly trained financial professionals
- A broad array of products serving the needs of individuals and businesses throughout their lifecycles
- Financial strength and stability that help safeguard the long-term commitments vital to any insurance solution

### Our Solutions
- Term and permanent life insurance
- Disability income insurance
- Long-term care insurance
- Executive benefits and benefit funding vehicles
- Trust services

### Our Relationships
- Advisors, broker-dealers, wirehouses, consultants, third-party administrators, registered investment advisors
- Retirement plan sponsors: Businesses, labor unions, tax-exempt organizations
- Participants in employer-sponsored retirement plans
- Individuals and business owners

### Our Strengths
- Rated first by advisors for “best combination of product, service levels and pricing”
- eSuiteSM wireless enrollment system
- Analytics for targeted participant education
- Diversified suite of innovative retirement income products and services

### Our Solutions
- Defined benefit plans / consulting
- Defined contribution / 401(k) plans
- Nonqualified deferred compensation plans
- Tax-exempt plans including 403(b) and 457
- Taft-Hartley plans
- Retirement Management Account
- Deferred annuities
- Immediate annuities
- IRAs

### Our Relationships
- Individual investors
- Institutional investors
- Advisors / Intermediaries

### Our Strengths
- Consistent investment approach
- Deep experience and expertise
- Small investment teams; unique, meaningful solutions
- Excellent relationships with distributors
- Risk expertise

### Our Solutions
- Mutual funds
- Hedge funds of funds
- Separately managed accounts
- Investment management for institutions and sub-advisory services
- 529 college savings plans
- Fixed income and absolute return strategies
- Medium term notes

### Our Relationships
- Individuals
- Key business executives
- Corporations, businesses and institutions
- Advisors / Intermediaries

### Our Strengths
- Individualized, customer-needs-based solutions with innovative features
- Strong sales force
- Extensive distribution network
- Flexible response to market needs and changes

### Our Solutions
- Fixed and variable annuities — deferred and immediate
- Life insurance: Universal and variable
- Whole life: Individual and group
- Mutual funds
- Defined contribution plans
- Structured notes
<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Assets Under Management</td>
<td>$455,723</td>
<td>$395,881</td>
<td>15%</td>
</tr>
<tr>
<td>Premium &amp; Other Deposits</td>
<td>26,268</td>
<td>24,735</td>
<td>6%</td>
</tr>
<tr>
<td>Sales:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Insurance</td>
<td>1,622</td>
<td>1,190</td>
<td>36%</td>
</tr>
<tr>
<td>Retirement</td>
<td>5,023</td>
<td>5,417</td>
<td>(7)%</td>
</tr>
<tr>
<td>Investment Management</td>
<td>79,487</td>
<td>62,967</td>
<td>26%</td>
</tr>
</tbody>
</table>
## Consolidated Statutory Results\(^9\)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Company Assets</td>
<td>$122,155</td>
<td>$113,552</td>
<td>8%</td>
</tr>
<tr>
<td>Life Company Liabilities</td>
<td>115,128</td>
<td>106,864</td>
<td>8%</td>
</tr>
<tr>
<td>Dividends to Policyholders</td>
<td>1,226</td>
<td>1,155</td>
<td>6%</td>
</tr>
<tr>
<td>Net Income</td>
<td>810</td>
<td>753</td>
<td>8%</td>
</tr>
</tbody>
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\(^9\) These consolidated statutory results of Massachusetts Mutual Life Insurance Company also include its U.S.-domiciled wholly owned subsidiaries: MML Bay State Life Ins. Co., C.M. Life Ins. Co., CM Benefit Ins. Co. and CM Assurance Co. Copies of the separate company audited statutory financial statements are available to policyholders upon written request.
To Our Policyholders and Clients

For more than 155 years MassMutual has grown and developed by helping our policyholders and clients take the right steps to secure their financial futures.

Our goal is to keep that mutual spirit strong for decades to come. To that end, we took a hard look at our operations in 2006, and made some key strategic adjustments. Put simply, we renewed our core focus and discipline, and recommitted ourselves to working alongside you to forge long-term relationships based on trust, value and integrity. As it frequently does, sharper focus also helped us achieve strong 2006 financial results:

- In our U.S. insurance business, sales increased to $1.6 billion, up 36 percent from 2005.
- Net income grew 8 percent to $810 million.
- Our dividend to eligible participating policyholders was a record $1.2 billion.
- Assets under management by MassMutual and its family of companies, which include assets managed by our subsidiaries OppenheimerFunds, Babson Capital and Baring Asset Management, rose 15 percent to $456 billion.
- Total adjusted capital exceeded $9.4 billion, up 7 percent.

This strong performance is also reflected in the objective rating agency assessments of MassMutual. Just this past December, the rating agency Standard & Poor’s highlighted MassMutual’s “extremely strong competitive position,” “extremely strong capitalization” and “well-diversified investment portfolio” (December 28, 2006). MassMutual’s current financial strength ratings are AAA (Extremely Strong) from Standard & Poor’s; AAA (Exceptionally Strong) from Fitch Ratings; A++ (Superior) from A.M. Best Company; and Aa1 (Excellent) from Moody’s Investors Service.

While we’re pleased with these results, our focus is on the future, and we feel it’s important to demonstrate that to our policyholders. Fundamentally, we share a strong belief that doing business the right way will lead to long-term prosperity, and that drives both our business strategy and our core operating principles. We believe that, over time, the marketplace rewards integrity and honesty. We believe that taking the time to understand your needs and helping you meet them effectively, instead of simply selling product, will earn us your loyalty in the long run.
Key 2006 accomplishments include:

• Our dividend to eligible participating policyholders was a record $1.2 billion.
• Reaffirmed commitment to mutual ownership structure.
• Network of more than 4,000 financial professionals, an invaluable resource.
• Financial strength ratings among the highest of any company in any industry.
• Established MassMutual Capital organization.
• Maintained strongly diversified family of companies and investments.
Our industry exists to satisfy basic human needs, and our financial strength is a means to that end, not an end in itself. We hold ourselves and our company to these principles, and we know that you will hold us to them as well.

**Charting the Right Course**

In our letter to you in last year’s Annual Report, we announced a comprehensive review of our business strategy. Based on that rigorous assessment, we have reaffirmed our commitment to mutual ownership and realigned the company around our core businesses. In essence, we will focus our efforts where we can create and deliver the most value.

For example, our mutual structure makes whole life a natural product for us to emphasize from both a consumer-need and a competitive standpoint. As the marketplace is rediscovering, a well-designed whole life policy effectively meets a multitude of needs, from guaranteed death benefits to estate planning and charitable giving and use of cash values for education funding and supplemental retirement income. No glitz, no glamour – but a superior financial tool for our customers.

We therefore resolved to establish a leading position in the whole life insurance market, and our 24 percent increase in 2006 whole life sales suggests we are on the right track. Our record dividend of $1.2 billion to eligible participating policyholders sent another clear signal that whole life and other dividend-paying products are back at the center of our game plan. And MassMutual’s agency system has embraced our strategy too, with solid field force growth in addition to the robust sales increase noted above.

Of course, our commitment to our more than 4,000 financial professionals goes far beyond any single product. These individuals embody our values on a daily basis with the depth of their knowledge and expertise, and – even more importantly – their insistence on understanding client needs before proposing solutions. We’ll continue to strongly support this invaluable resource, confident these efforts will benefit both our policyholders and our financial strength into the foreseeable future.

We are also committing increased resources to our growing retirement businesses, a key sector based on demographic and wealth-transfer trends. In our Retirement Services business, we continue to be recognized as a leader in developing innovative technology and educational tools, making it easier for participants to enroll in 401(k) plans and manage their savings in an informed, efficient manner. In particular, we have identified opportunities for new products and services as a result of the Pension Protection Act of 2006, and will begin making those available to sponsors and participants in 2007.

Our new Retirement Income business seeks to serve the millions of baby boomers on the cusp of retirement with new-generation, creative solutions for managing their retirement funds. This business recently developed the Retirement Management Account. This innovative solution, an investment advisory program and Individual Retirement Account (IRA), enables financial advisors to help clients turn qualified retirement savings into a stream of income to meet their long-term needs.

Our investment management companies, including such highly respected brands as OppenheimerFunds, Babson Capital Management, Cornerstone Real Estate Advisers, and Baring Asset Management, again posted strong performances in 2006. Built on their own traditions of excellence, these subsidiaries diversify our portfolio of businesses and provide globally-based assets under management and sustainable growth across both retail and institutional sectors.

In the international arena, we will continue to manage our subsidiaries, located mainly in Asia and Europe, with a balance of autonomy and guidance to allow these well-chosen companies to grow organically. So far this strategy has served MassMutual and its policyholders well, generating attractive returns and providing welcome diversification to our financial foundation.

**A Strong Leadership Team**

To succeed, any strategy demands the right team to execute it effectively – individuals who not only have the requisite skills and experience, but who will also set and demonstrate the right “tone at the top.” We now believe we have in place an exceptional team for that job.

Our senior leadership team includes Fred Castellani heading up our Retirement Services business; Roger Crandall as MassMutual’s Chief Investment Officer and CEO of Babson Capital Management; Drew Dickey, who leads our new Retirement Income Group; Mike Foley, who heads our Information Systems Organization; Bill Glavin leading our U.S. Insurance Group; and several other key executives.

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10) Dividends are not guaranteed.
John Murphy, CEO of OppenheimerFunds; Mark Roellig as General Counsel; Mike Rollings as Chief Financial Officer; and Elaine Sarsynski as MassMutual’s Chief Administrative Officer and CEO of MassMutual International.

We should also note that as of January 1, 2007, there was a change in roles for the authors of this letter. Stu Reese was named Chairman of the Board of Directors, while continuing to serve as MassMutual’s CEO and President. Jim Birle became Lead Director. You can be assured that our open and constructive partnership will continue.

**Key Initiatives**

In addition to these strategic and leadership changes, we’ve begun aggressive efforts to streamline workflow, optimize our infrastructure, and make it as easy as possible to do business with MassMutual. For example, we launched a multi-year technology initiative to ensure our continued responsiveness to clients and financial professionals alike. As a mutual company, we’re free to make major investments like this based on their long-term value.

Additionally, we established our new MassMutual Capital organization, which will continue to identify appropriate opportunities to diversify our investment portfolio and capitalize on our investment expertise in the financial services industry.

In the financial reporting arena, for 2006 Massachusetts Mutual Life Insurance Company voluntarily conducted an internal controls review, equivalent to that performed by public companies under Section 404 of the Sarbanes-Oxley Act. This was a substantial effort which involved validating and improving the documentation of business processes and controls, followed by the testing of the controls to ensure they were operating properly. This increased commitment to strengthening internal controls over financial reporting is consistent with our efforts to pursue the highest standards of ethics and performance, which, according to Moody’s Investors Service, “places MassMutual ahead of many other mutuals in this aspect of financial control oversight and review.”

We achieved all of these results and advances in the face of substantial headwinds, including a historically low interest-rate environment, some troubling industry pricing practices, and increasing regulatory complexity. Despite a lack of investment opportunities that meet both the risk standards and return requirements we would ideally like to see, we have resisted, and will continue to resist, the urge to lower our standards to improve short-term returns at the risk of long-term performance. Our independent and mutual status, and our commitment to doing business with a long-term perspective, also enabled us to resist taking unreasonable risks that may not be fully covered from a long-term perspective. Designing or selling products in ways or at price levels insufficient to cover the risk accepted does not meet our strict financial objectives and support the financial stability our customers expect and deserve.

**Long-Term Relationships**

This past year’s accomplishments, and our consistent history of financial success, are a tribute to the long-term relationships we have built through the years. We are thankful for all of them: our employees and representatives around the world who build and support the solutions that make our work possible; our field network of financial professionals and other distributors who help individuals and businesses make the best use of these solutions; and the many analysts and regulators who work openly with us in their important role of keeping our industry operating with the highest ethical standards.

Most important, though, is our relationship with you, our policyholders and clients who place your trust in us. When it comes to financial security, we’ll help you get there. Beyond simply delivering products, we’ll work with you on your own terms to understand your needs and help you take your next financial step – one day, one year, and one life at a time.

March 1, 2007

James R. Birle
Chairman of the Board (2006)

Stuart H. Reese
Chairman, President and Chief Executive Officer
When MassMutual opened for business and sold our first life insurance policy in 1851, the intent was to build a company committed to meeting the needs of policyholders.

Today we are still helping to provide peace of mind and financial security to millions of people around the world. As a mutual company owned by our members, we are deeply committed to their best interests, offering a variety of insurance products designed to meet many critical needs throughout a person’s life.

MassMutual’s U.S. Insurance Group oversees all product development, distribution and service for MassMutual’s life insurance, long term care and disability income products sold in the United States.

A Premier Network of Financial Professionals

At the heart of our insurance businesses is MassMutual’s field network of more than 4,000 financial professionals. They are among the most highly trained and knowledgeable representatives in the industry, enabling them to guide our policyholders toward greater financial security in a skillful and insightful manner. Even independent industry financial rating agencies recognize the strength of these financial professionals affiliated with MassMutual’s Career Agency network. Standard & Poor’s, for example, describes MassMutual’s commitment to this network as the “cornerstone of growth” in its December 2006 company research report.

That commitment is indeed longstanding and continuing, as evidenced by the industry-leading educational opportunities and financial tools that we provided to these individuals over the past year. In 2006, we offered seminar programs to help our financial professionals stay abreast of the latest developments in insurance and financial consultation.
Key 2006 accomplishments include:

- Strong results in our U.S. insurance business, with sales of $1.6 billion, up 36 percent from 2005.
- Over $340 billion of life insurance coverage.
- More than $1.3 billion in benefit claims paid.
- A record $53.9 billion in assets under management.
Our FieldNet website, which gives financial professionals online access to a wide array of education and support tools, maintained its number-one industry ranking, based on a September 2006 assessment from DALBAR, a leading financial services market research firm. And – in addition to our core insurance portfolio – we continued to provide our financial professionals, through our related businesses, access to specialized support resources. Those resources include the MassMutual Trust Company, FSB, providing personalized trust and fiduciary services, and MML Investors Services, Inc., MassMutual’s broker-dealer subsidiary, offering investment products such as annuities and mutual funds as well as investment advisory services. Both of those organizations posted solid results in 2006, with MML Investors Services sales rising 8 percent to $4.4 billion, and MassMutual Trust Company sales exceeding $160 million.

Our financial professionals pride themselves on providing personalized service to their clients. We have long understood that, for financial guidance to stand the test of time, it must be grounded in the individual, unique needs of each client. This past year, we continued to provide our financial professionals with new and enhanced tools to help them better meet the distinctive needs of our diverse clientele. For example, we introduced new tools to support the financial needs of women, such as the “For Women” section of our website (www.massmutual.com/women). And we continued to enhance our innovative SpecialCareSM offering, which helps people with a disability or other special need, and their families, develop a life care plan. From education to technology to support resources – these are but a few examples of the many innovations and the extensive infrastructure that help our financial professionals become highly effective and valued guides to our policyholders.

In addition to the expertise of our network of financial professionals, MassMutual’s domestic life insurance companies offer a broad insurance product portfolio designed to help meet the needs of individuals and businesses at a variety of points in their lifecycles.

**Life Insurance**

Our core product, life insurance, remains the foundation of any sound financial strategy. Our broad range of life products are designed to help meet a variety of needs, including death benefit protection, wealth transfer, income replacement and cash value accumulation, as well as supplemental retirement, estate and business planning. Our life product portfolio is one of the broadest in the industry, combining competitive pricing and valuable features with the backing of an exceptionally strong and financially stable product provider. Approximately 1.8 million policies were in force as of year-end 2006, representing over $340 billion of insurance coverage.

Continuing our tradition of innovation, we introduced a new term insurance product in 2006, bringing affordable coverage to new families. This product can be easily converted to a permanent insurance policy when that better serves their longer-term financial objectives.

Life insurance provides financial protection against certain risks, such as the loss of a loved one or a key business associate. However, MassMutual understands that true peace of mind and security for policyholders originate from comprehensive insurance planning that protects against a wide range of risks. To that end, MassMutual offers disability income, long term care and executive benefit product solutions that help individuals and businesses protect themselves from the financial impact of these other risks.

**Disability Income Insurance**

MassMutual offers disability income insurance to help individuals protect a portion of their earnings, their family and their lifestyle from the potentially devastating effects of disability. Available to individuals directly or through the workplace, our portfolio of disability income insurance solutions is broad and innovative. From our most basic product that can serve the needs of working families, to our most sophisticated solutions for high-income earners, to
our innovative e-Worksite Solutions™ employee benefit online application platform, MassMutual is a leading provider of flexible and valuable disability income protection products.

In addition, through ComPsych® GuidanceResources®, we offer disability income clients an extensive array of policyholder-assistance program resources. This program provides every MassMutual disability income policyholder – before, during and after a claim – with information and support regarding elder care, child care and emotional well-being, as well as fitness and nutrition. Since 2005, more than 13,000 policyholders or family members have tapped into these services and, according to a September 2006 study conducted by ComPsych®, respondents reported a 98 percent satisfaction rate with the program.

Premiums within our Disability Income business (including both individual and worksite sales) grew four percent in 2006, reaching $427 million for the year. In addition, over $267 million in disability benefits was paid to our policyholders.

**Long Term Care Insurance**

Over the course of a lifetime, there are circumstances that individuals or their loved ones may encounter that dramatically alter their ability to care for themselves. It is for this reason that many people choose long term care insurance as part of their comprehensive insurance plan.

Available to individuals directly or through the workplace, MassMutual long term care insurance provides financial benefits for those with chronic, long-term conditions who can no longer live independently without some assistance. With the growing trend toward more personal financial responsibility for health care in retirement, long term care insurance is increasingly becoming an essential element of any personal financial strategy.

Our Long Term Care business recorded $19 million in new premiums in 2006. These new sales, coupled with strong client retention, helped increase total insurance in force by 26 percent, up to $141 million.

**Executive Benefits**

Consistent with our belief in personalized financial solutions, in 2006 MassMutual enhanced its Executive Benefits practice, encompassing our many insurance solutions which have long served the needs of employers and their executive professionals.

These solutions – including employer-sponsored executive benefit programs, institutional benefit funding vehicles and wealth accumulation products for high-net-worth individuals – address many needs. They help employers to attract and retain talented executive professionals, help business firms fund the escalating cost associated with employee benefit liabilities and assist the most affluent individuals to satisfy their sophisticated financial needs with institutionally priced tax-efficient products.

Our Executive Benefits practice had an excellent year, with sales increasing over 50 percent to reach a total of $668 million. Executive Benefits assets under management and insurance in-force both grew 10 percent over the past year, totaling $13.8 billion and $62 billion, respectively.

**A Tradition of Caring for Our Policyholders**

Be it for individuals, young or old, as well as businesses small and large, central to MassMutual’s philosophy and to that of our financial professionals is caring for our policyholders throughout the many stages of their lives.

Consulting with a MassMutual financial professional, or purchasing a MassMutual insurance product, is only the beginning. Our policyholders become a part of the MassMutual extended family. As such, they benefit from our valuable solutions and services that can help protect them and their loved ones for generations.
MassMutual has been providing innovative products to help clients save for and enjoy retirement for more than half a century.

Whether working with individuals or with institutional clients and their employees, MassMutual simplifies the retirement planning process through every stage of life by providing customer-focused products, services and financial expertise to help them save for their retirement goals.

MassMutual serves the institutional and individual retirement markets through two business operations: MassMutual Retirement Services, which provides retirement planning products and services for employer-sponsored retirement plans and their participants, and MassMutual Retirement Income Group, which provides financial products and programs for individuals saving for or living in retirement.

Importantly, our customers have the peace of mind that comes with knowing their retirement products and programs are with a company that has a proud history of successful long-term client relationships.

**MassMutual Retirement Services**

MassMutual Retirement Services has been meeting the needs of institutional retirement plan sponsors since 1946. We are an industry-leading innovator with a passion for service and the power to maximize retirement success through needs-based solutions. We’re the difference between just thinking about retirement success and helping make it happen.
Key 2006 accomplishments include:

• e4SM enrollment technology named “#1 Wireless Innovation” by InformationWeek magazine’s annual InformationWeek 500 report.

• Introduced roll-in service to help participants consolidate and simplify the management of their retirement savings.

• MassMutual Retirement Services sales totaled $2.8 billion.

• Launched innovative Retirement Management Account, an investment advisory program and Individual Retirement Account (IRA) that enables financial advisors to help clients turn qualified retirement savings into monthly payouts.

• Retirement Income Group sales totaled $2.2 billion.

“Retirement income needs are as different as each individual relationship,” says financial professional Tom Carstens (right) of New York City. Carstens finds the MassMutual Retirement Management Account, an innovative investment advisory program, the ideal tool for helping retirees manage their need for lifetime retirement income.
Initially offering defined benefit plans, MassMutual Retirement Services has evolved to meet clients’ changing needs by providing defined contribution/401(k) and nonqualified deferred compensation retirement products and services for corporate, union, nonprofit and governmental plans across the United States. In 2006, MassMutual Retirement Services had more than 1 million plan participants and assets under management grew to $37.4 billion. Premiums totaled $5.7 billion and sales totaled $2.8 billion.

Providing the Tools Needed to Take Action

MassMutual Retirement Services is committed to helping plan participants take action on retirement planning by providing outstanding tools and communications for retirement plan sponsors and their employees. Our efforts to educate participants and help them take important steps toward a more secure retirement have been recognized both outside and within our industry.

For example, outside our industry, Retirement Services’ patent-pending e4SM wireless enrollment system was named the “#1 Wireless Innovation” for 2006 by InformationWeek magazine in its annual InformationWeek 500 report. The e4 technology – short for Electronic Enhanced Enrollment Experience – provides participants at enrollment meetings with a hand-held device through which they can instantly enroll in their employer-sponsored retirement plan. During more than 50 pilot meetings held in 2005, e4 helped 90 percent of nonparticipating employees to enroll on the spot. Throughout 2006, e4 continued to be a fun, highly effective tool for employees to handle not only on-the-spot enrollment but also increasing deferrals, changing investment selections, initiating rollover processing and more.

Within our industry in 2006, Retirement Services earned the highest number of Signature Awards for excellence in retirement plan communication and education from the Profit Sharing/401(k) Council of America. This represents the second year in a row that MassMutual has earned this distinction among all participating retirement plan providers in the competition. MassMutual developed these award-winning materials with plan sponsors to help overcome specific communication challenges including plan design changes, increasing participation and increasing deferrals. MassMutual also earned the highest award in the “Communication to Plan Sponsors” category for the second consecutive year, taking home Gold for its Communications Toolkit, a comprehensive kit that helps employers provide more effective participant education.

In support of our continuing efforts to more effectively communicate with plan participants, MassMutual conducted research in 2006 exploring trends in retirement saving behavior. The results, published in a white paper entitled “A Behavioral Approach to Retirement Planning: Automation, Personalization and Engagement,” validated the importance of providing personalized communication and education tools that help plan participants become more engaged in their own retirement planning.

Retirement Services introduced a roll-in service in 2006 to help participants consolidate and simplify the management of their retirement savings by rolling assets from individual IRAs and previous 401(k)s into their current 401(k) plan administered by MassMutual.
Also in 2006, Retirement Services scored well above the industry average in the two largest advisor satisfaction and loyalty studies, reflecting our continued excellence in serving the needs of retirement professionals and the clients and participants they serve. MassMutual was rated first by professionals among all retirement plan providers in one of the surveys for “the best combination of product, service levels and pricing.”

**MassMutual Retirement Income Group**

The MassMutual Retirement Income Group focuses on meeting the needs of people approaching or living in retirement. In 2006, MassMutual combined two separate divisions, Annuity and Income Management Group, to develop synergies that will benefit both customers and financial professionals with research-based retirement income solutions.

The combination of these business strengths positions the MassMutual Retirement Income Group to compete successfully in this market and meet the evolving needs of the rapidly growing population of retiring baby boomers. Products and programs within the MassMutual Retirement Income Group include deferred annuities, immediate annuities and an investment advisory program.

Our strong results for 2006 show great potential in this market; MassMutual Retirement Income Group generated $2.2 billion in sales and ended the year with $16.5 billion in assets under management.

Millions of baby boomers are expected to retire in the next five years, precipitating a significant need for financial products to help them enjoy their retirement. To be a leader in this critical market, we are committed to building on our current solutions while also developing new ways to help our customers achieve their vision of a successful retirement.

**Innovative Retirement Management Account**

New retirement planning solutions launched by MassMutual Retirement Income Group in 2006 reflect the growing market demands for greater flexibility and simplicity. The MassMutual Retirement Management Account (RMA) is an innovative investment advisory program and an Individual Retirement Account (IRA) that enables financial advisors to help clients turn qualified retirement savings into a stream of income to meet their long-term needs. This program, offered exclusively by investment advisor representatives, includes an immediate payout annuity, mutual fund model portfolios and an income planning tool to help clients develop and monitor their own customized retirement income plan.

The Retirement Income Group also launched an innovative variable annuity designed for investors who wish to receive a level of principal protection and the ability to participate in the equity markets.

In keeping with our goal of providing customers competitive value, we reduced certain contract expenses for two variable annuity products for both new and existing annuity clients.
MassMutual has long enjoyed a history of success with its investment management companies. These companies span the globe, offering a broad range of products and services, from traditional investment vehicles, such as mutual funds, to more sophisticated corporate collateralized debt obligation (CDO) transactions. Our highly successful strategic investment operations include OppenheimerFunds, Inc., Babson Capital Management LLC, Baring Asset Management Limited, Cornerstone Real Estate Advisers LLC and the MassMutual Financial Products Division.

Above all else, MassMutual’s investment management businesses are committed to long-term performance in order to enhance the company’s financial strength and resilience. In 2006, total assets under management grew from $360.7 billion to $410.9 billion.

**OppenheimerFunds**

For nearly 50 years, OppenheimerFunds, Inc. (OppenheimerFunds) and its controlled affiliates have helped investors realize their financial goals by offering diverse investment products, strong long-term investment performance and excellent customer service. The company’s consistent focus on long-term investing, building lasting partnerships with financial advisors and maintaining a values-based culture is the foundation of its success and the springboard for its continued growth.

Each of the company’s business lines – serving retail and institutional clients – experienced significant growth in 2006. Sales for the company totaled $59.7 billion, up 29 percent over 2005; assets under management were $244.1 billion at year-end 2006, a 19.5 percent increase over the previous year. This marks the company’s fourth consecutive year of record results.
Key 2006 accomplishments include:

- OppenheimerFunds total company sales reached $59.7 billion, up 29 percent over last year.
- OppenheimerFunds was named “Best Overall Large Fund Family” by Lipper, Inc.
- Babson sales totaled $7.4 billion.
- Babson assets under management increased to $109.2 billion.
- Baring assets under management grew to $41.8 billion.
- Cornerstone assets under management increased to $8.7 billion.
In 2006, OppenheimerFunds was recognized for its long-term investment excellence by several third-party organizations. Lipper, Inc., a leading fund intelligence source, named OppenheimerFunds “Best Overall Large Fund Family” and “Best Large Fixed Income Family” at its annual industry awards ceremony. The firm also earned high praise from Barron’s (August 14, 2006), which selected six OppenheimerFunds portfolio managers for its annual Top 100 best fund managers in the United States.11

The company is also focusing on meeting the needs of those transitioning from planning for retirement to living in retirement. OppenheimerFunds Retirement Plans Group introduced innovative tools such as the “Envision Your Retirement” planning workbook series and Retirement Income Manager software, key retirement-planning elements which allow advisors to evaluate hundreds of financial scenarios for their clients. This customer segment will continue to be an important area for OppenheimerFunds as it moves forward.

**Babson Capital Management**

Babson Capital Management LLC (Babson Capital), with its principal offices located in Springfield and Boston, Massachusetts, manages assets for a broad range of institutional investors, the MassMutual General Investment Account and clients of MassMutual’s insurance and retirement businesses. Investment strategies that yield risk-appropriate returns include corporate credit (investment grade and high yield), asset-backed securities, quantitative strategies, leveraged loans, real estate finance, private placements and private equity. Assets managed and serviced by Babson Capital increased by $2.3 billion during the year to $109.2 billion as of year-end 2006.

The firm continued to leverage its significant investment resources and capabilities in new areas of investment opportunity. In 2006, Babson Capital entered the synthetic CDO market, which couples the rapidly developing credit derivatives market with a structured fund product – areas in which the firm has significant capability and experience.

Babson Capital’s London-based subsidiary, Babson Capital Europe Limited, launched Almack Mezzanine I LP, which extended credit skills developed for the European bank loan market to the mezzanine financing sector.

Other Babson Capital transactions of note in 2006 were the closing of a U.S. corporate mezzanine fund, Tower Square Capital Partners II, and a real estate mezzanine fund, Babson Mezzanine Realty Investors. The firm also recorded $630 million in real estate finance servicing transactions for 2006.

Babson Capital’s strong investment results across many business units led to sales of $7.4 billion, including 11 new structured funds totaling $4.8 billion of assets. This represents a record year in both transactions and assets raised for Babson Capital’s structured fund business and supports the firm’s reputation as a leader in this market.

**Baring Asset Management**

Baring Asset Management Limited (Baring), headquartered in London, provides asset management services and products in developed and emerging equity and bond markets to institutional, private and, through intermediaries, retail clients across the globe. The firm’s rich heritage dates to 1762 – with investment services for U.S.-based clients since the late 1970s and client relationships that span decades.

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11) OppenheimerFunds, Inc. has had at least 4 portfolio managers ranked in Barron’s/Value Line’s annual survey “Top 100 Fund Managers” for each of the past 8 years. Surveys were published 8/14/06, 8/15/05, 8/16/04, 8/4/03, 7/28/02, 7/23/01, 7/17/00 and 7/19/99. Surveys are of qualifying portfolio managers; scores are assigned based on performance and volatility of the fund managed versus peer group. Barron’s is a trademark of Dow Jones, L.P.
Baring’s more than 100 investment professionals, based in key investment centers worldwide, aim to meet or exceed clients’ financial objectives by uncovering unrecognized investment opportunities using a combination of growth and valuation strategies.

Baring’s sales were particularly strong in Europe, Great Britain, Asia and Latin America, benefiting from the excellent relationships the firm has built with its distribution partners. Mutual fund sales more than doubled in 2006 to $8.2 billion. Total assets under management for 2006 grew to $41.8 billion.

A major innovation was the development of targeted return products for clients ranging from pension funds and charities to private investors. These products leverage the asset allocation and stock selection skills of the firm, meeting the growing demand from investors for products that aim to deliver consistent risk-adjusted returns over time.

**Cornerstone Real Estate Advisers**

Cornerstone Real Estate Advisers LLC (Cornerstone), based in Hartford, Connecticut, offers real estate investment services for institutional customers such as pension funds, Taft-Hartley plans, endowments, foundations and corporations, including MassMutual. Its wide variety of focused asset management products are dedicated to the preservation and growth of capital and include closed-end and open-end funds, separate accounts investing in directly owned real estate, and accounts investing in publicly traded real estate investment trusts (REITs). In 2006, Cornerstone’s assets under management grew 26 percent to $8.7 billion.

Cornerstone has a market-driven investment strategy and expertise in development, redevelopment and repositioning real estate across all major property types: office, retail, multi-family, industrial and hotels. Some of the high profile real estate it manages across the U.S. landscape includes The Mandarin Oriental Hotel in San Francisco; the Marco Island Marriott in Florida; the J.W. Marriott Ihilani Resort & Spa in Hawaii; Gallery Place, a major mixed-use center in Washington, D.C.; Long Beach Town Center, a regional shopping mall in Long Beach, California; and Fan Pier, a major mixed-use center under development in Boston, Massachusetts.

**MassMutual Financial Products Division**

The Financial Products Division (FPD) leverages MassMutual’s financial strength and expertise in investment management and risk analytics by offering guaranteed investment products to institutional clients.

FPD employs an opportunistic sales approach. In response to tight credit spreads, it reduced sales from $1.3 billion in 2005 to $648 million in 2006. Assets under management at the end of 2006 totaled $7.1 billion.

Terminal funding contract sales increased in 2006 as more defined benefit retirement plans terminated (a terminal funding contract is a group annuity contract that provides benefits formerly delivered by a defined benefit pension plan). Increased defined benefit pension plan termination activity is expected to continue in the future due to changing funding and accounting rules, leading to further sales opportunities.

In 2006, FPD established two new innovative investment programs – a new subsidiary, Invicta Credit LLC (Invicta), and a variation of its funding agreement-backed medium-term notes (MTN) program. Invicta is a credit derivatives product company focusing on highly rated investments in pools of corporate debt obligations. The expanded MTN program should reduce the impact of changing economic conditions on future sales and assets under management. FPD recorded $500 million of such MTN sales in 2006 and expects significant growth in 2007.
MassMutual International LLC (MMI) is the holding company for the international life insurance and mutual fund subsidiaries of MassMutual. MMI companies provide insurance and financial services to more than 1.7 million clients.

MMI offers life insurance, health benefits and accident insurance, annuity and pension products and asset management products and services across some of the more stable and promising markets in Asia and Europe.

The MMI companies in Japan, Hong Kong, Taiwan and Luxembourg complement the international operations of MassMutual’s asset management subsidiaries, including Babson Capital Management LLC, Baring Asset Management Limited, OppenheimerFunds, Inc. and Cornerstone Real Estate Advisers LLC.

MassMutual’s strategic approach involves managing our international businesses to maximize performance, minimize risks and generate economic returns. Supporting this strategy is our commitment to building successful long-term relationships with our established and new clients, as well as all those within our varied distribution system, which includes bancassurance, asset managers, certified financial planners, securities firms, family offices, franchised agents and independent brokers.
Customer service and support know no international boundaries. Like their American counterparts, retirees in Japan are faced with outliving their assets and securing a comfortable retirement. With strong products and customer service from employees like Mr. Kitamura and Ms. Imai, MassMutual Japan is working hard to help Japan’s retirees take important steps toward preparing for their financial future.

Key 2006 accomplishments include:

- More than 1.7 million clients in Japan, Taiwan, Hong Kong, and Europe.
- Total insurance sales more than $2 billion.
- Total premium over $4 billion, a 30 percent increase.
- More than $18 billion in assets under management, up 27 percent over 2005, including approximately $6 billion each at life insurance subsidiaries in Japan and Taiwan.
- Assets under management doubled for MassMutual Europe.
MassMutual Life Insurance Company (Japan)

Relationships with customers have played an integral part in MassMutual Japan’s long history. The company, first established in 1907 and celebrating its 100th anniversary in 2007, was acquired by MassMutual in 2001. MassMutual Japan continues to build its success on distribution relationships with the country’s largest securities firms, a major bank and numerous regional banks, and more than 250 independent brokerage agencies, totaling more than 85,000 sales representatives.

All of these new, established and ongoing relationships have helped the company grow its total sales nearly tenfold since 2002. Sales of $1.3 billion in 2006, up 81 percent over the previous year, were generated from a robust portfolio of competitive, customer-needs-based products, including a popular fixed annuity and corporate-owned life insurance.

The company is devoting significant resources to the development of annuity products for the retirement planning and income markets. The retirement planning market presents a considerable opportunity for the company as Japan’s own baby boomer population ages. In December 2006, MassMutual Japan introduced a creative new variable annuity, which went from initial development to first sale in little more than one year. Total assets under management for the company increased by 29 percent to $5.9 billion.

MassMutual Mercuresies Life Insurance Co., Ltd. (Taiwan)

With a strong sales force – more than 12,000 full- and part-time representatives – and a supporting staff of approximately 900 employees, MassMutual Mercuresies Life is doing especially well in the fast-growing central and southern regions of Taiwan, where it ranked third and first, respectively, for recruitment of new agents in 2006. Its growing bancassurance channel (the selling and marketing of insurance products through banks and their branches) now includes 13 bank relationships, including four of Taiwan’s top 10 banks, and accounted for 17 percent of total sales.

MassMutual Mercuresies Life offers life, health benefit and personal accident insurance, structured notes and annuities.

Variable universal life and structured notes remain the company’s most popular products, helping generate a 17 percent increase in total premiums over the previous year, to $1.8 billion in 2006. Since becoming part of the MassMutual Financial Group in 2001 through a joint venture with Mercuresies & Associates, the company’s assets have grown more than five-fold to $6.1 billion.
MassMutual’s strategic approach involves managing our international businesses to maximize performance, minimize risks and generate economic returns.

Fuh Hwa Securities Investment Trust Co., Ltd. (Taiwan)

Fuh Hwa Securities Investment Trust Co., Ltd. moved from the sixth largest Taiwanese mutual fund company at year-end 2003 to the second largest by year-end 2006. Established in 1997 and acquired jointly in 2004 by MassMutual, Mercuries & Associates and MassMutual Mercuries Life, Fuh Hwa had $4.7 billion in assets under management as of year end. As a leader in discretionary account management, Fuh Hwa is well positioned for growth as a manager of pension assets.

MassMutual Asia Ltd. (Hong Kong)

MassMutual Asia Ltd., acquired by MassMutual in early 2000, reached a milestone in 2006, surpassing $1 billion in assets under management for the first time. This considerable accomplishment shows a ten-fold growth in assets during the company’s time under MassMutual ownership (compared to year-end 2000). During the same period, sales grew to $133 million in 2006. Located in Hong Kong, the financial center of East Asia, with a branch office in Macau, MassMutual Asia offers an extensive portfolio that includes individual protection and wealth management products, group life and pension products. MassMutual Asia has long emphasized innovative and flexible products, including universal life, variable universal life and annuity products. Successful relationships with several banks, over 200 independent brokers and franchised agents and almost 1,400 sales representatives helped generate premium of $342 million in 2006.

MassMutual Europe S.A. (Luxembourg)

MassMutual Europe’s primary products include flexible-premium unit-linked life insurance, similar to variable products in the United States. The focus is on designing wealth-management and succession-planning solutions to address the needs of affluent clients and high-net-worth private clients in selected countries of the European Union, with a current emphasis on Belgium, Italy and Germany. MassMutual Europe distributes its products through relationships with private banks, asset managers, family offices, certified financial planners and independent brokers. In 2006, assets under management totaled $411 million, double that of the prior year. Total premiums increased 44 percent to $190 million.
Corpor<wbr/>ate Responsibilit<wbr/>y

MassMutual’s long-term success is greatly influenced by our steadfast commitment to corporate responsibility – from adding policyholder and client value to operating in accordance with the highest standards of business conduct.

Ethics and Governance

Acting with ethics and integrity is fundamental to how we build trust and protect our policyholders, clients, business partners, employees and company reputation. MassMutual aggressively enforces ethics codes and policies. Employees are required to sign an acknowledgement that they have read, understand and will abide by the company’s Corporate Business Ethics and Compliance Guide. MassMutual also provides ethics training to employees and managers, and in 2006 the company introduced a new, externally managed hotline that employees can use to bring forward ethics or compliance inquiries or complaints.

MassMutual and its affiliated domestic insurance companies have received certification from the Insurance Marketplace Standards Association (IMSA), an industry organization dedicated to promoting ethical conduct in all customer contacts involving sales and service of individual life insurance, annuity and long term care products.
Key 2006 accomplishments include:

- Named a *Working Mother* magazine 100 Best Companies for the eighth time.
- More than $7.6 million in charitable contributions.
- Recognized more than 1,100 area high school students as MassMutual Academic Achievers.
- Established an externally managed ethics hotline for home office employees.
- Special seminar series during National Breast Cancer Awareness Month produced more than $100,000 in donations for research, detection and treatment programs.

MassMutual gives back to its communities in a variety of ways. As an example, Melissa Ann Neil was a MassMutual Academic Achiever in high school, graduated from Bay Path College, in Longmeadow, Massachusetts with the help of a MassMutual scholarship, and was hired by MassMutual as an operations support representative. She recently received a forgivable loan from MassMutual’s first-time home buyer’s program for employees and is currently pursuing an MBA using MassMutual’s educational assistance program.
National Outreach
The company successfully extended its corporate responsibility nationally, reaching out to those in need. MassMutual held a special seminar series in October 2006 in conjunction with National Breast Cancer Awareness Month. The seminars, hosted by financial professionals in their local communities, provided women, their families and friends with access to a wide range of content and produced more than $100,000 in donations to research, detection and treatment programs for those battling breast cancer. MassMutual was also a sponsor for the 2006 Danskin Women’s Triathlon Series, a combined swim, bike and run/walk race for women that donates 10 percent of all entry fees to the Breast Cancer Research Foundation. At all eight race locations, MassMutual presented financial awareness seminars to participants, donating $10 to the Foundation for each seminar attendee.

Addressing Important Needs
The SpecialCareSM program – designed to help people with a disability or other special need, and their families, develop comprehensive strategies to address their lifetime financial requirements – once again in 2006 sponsored Easter Seals Walk With Me events and Disability Awareness Nights at professional baseball stadiums in communities across the country. The American College, a nonprofit educational institution that serves financial services professionals, conducts an exclusive SpecialCare Planner certification program for our professionals to learn how to effectively provide consultation and support to individuals with disabilities or other special needs, and to their families.

The LifeBridgeSM Free Life Insurance Program provides free $50,000 term life insurance for eligible parents or guardians. MassMutual pays the premiums. If an insured parent or guardian dies during the 10-year term, the $50,000 benefit funds a trust serviced by our trust company to pay for eligible dependent children’s educational expenses. At the end of 2006, 6,193 policies – more than $300 million in life insurance in force – have been given away. For full details about this program, please visit our website (www.massmutual.com/lifebridge).

Local Communities
MassMutual’s ties to local communities are essential to its continued success. MassMutual was established in 1851 in Springfield, Massachusetts, and its first president was the city’s first-ever mayor. The company is proud of its longstanding relationship with Springfield and continues to maintain its home office in the city more than 155 years later.

MassMutual’s commitment to Springfield and our surrounding communities has never waned, even as the city tackles recent financial difficulty. The company is taking an active role in Springfield’s redevelopment and in particular the State Street corridor just outside our front door. MassMutual has worked with city officials to convene a group of over 40 key stakeholders – including property owners, institutions, community-based organizations and neighborhood groups – to form the State Street Alliance. This group’s mission is to work together toward the development and implementation of a comprehensive economic redevelopment strategy for the State Street corridor. This initiative has the potential to significantly improve the economic climate of a central artery of the city and the immediate neighborhood of our home office.

MassMutual demonstrated our community leadership in December 2006 by offering a challenge grant of $50,000 to the Pioneer Valley Chapter of the American Red Cross for budget relief at the beginning of what unfortunately became a busy fire season.

Other local organizations have also benefited from MassMutual’s collective desire to reach out to those in need.
More than 750 employees from the Springfield and Enfield, Connecticut, campuses volunteered during the annual United Way Day of Caring in September, helping such agencies as the Children’s Museum of Holyoke, the Martin Luther King Community Center in Springfield and the Enfield Loaves and Fishes organization. MassMutual’s 2006 United Way campaign surpassed our goal and raised nearly $3 million. More than 27 additional local nonprofit organizations received more than $22,000 in total grants as part of the company’s Volunteers in Action program. Employees donated 912 pounds of food in a November drive to help area food banks. And MassMutual continues to support local arts, sponsoring organizations like the Springfield Symphony Orchestra.

Across the country, general agents and their personnel play an integral role in the company’s community outreach efforts. With the support and assistance of MassMutual’s home office, a number of company agencies developed Women’s Advisory Boards to facilitate and advocate financial literacy among women and girls. Through community service awards, MassMutual distributed $80,000 in 2006 to eligible nonprofit organizations where MassMutual field sales force personnel selflessly volunteered their time.

Supporting Education
Education is a priority focus in MassMutual’s community outreach efforts. For more than 20 years, the company’s Academic Achievement Program has fostered a culture of achievement in Springfield and Hartford-area schools where academic accomplishments are held in high regard. In 2006, more than 1,100 high school students were named MassMutual Academic Achievers by maintaining a B-or-better average for four consecutive marking periods. The success of this program has given rise to the Reading Achievers and the MassMutual Scholars programs. The Scholars program strives to expand educational opportunities for youngsters who are committed to their education, offering scholarships to eligible, college-bound high school seniors in Hampden (Massachusetts) and Hartford (Connecticut) counties. MassMutual also awards 30 annual scholarships to eligible middle school students to attend one of three Springfield-based private schools.

Nationally, MassMutual supports education through a partnership with the USTA Tennis and Education Foundation, by awarding thirty-five $5,000 annual college scholarships between 2005 and 2007 – a total financial commitment of $525,000.

In the Workplace
MassMutual integrates the principles of corporate responsibility not only into our community partnerships but also into internal workplace policies and practices. As defined by Fortune magazine (April 17, 2006), MassMutual is the largest company by revenue in the commonwealth of Massachusetts. We attract and retain employees through a mix of exciting opportunities, competitive wages and top-shelf benefits, including a generous educational assistance program and extensive in-house education.

MassMutual’s attention to our employees’ work-life balance was recognized again in 2006 when the company was named a Working Mother magazine 100 Best Companies for the eighth time. The company’s flex-time policy, child care options and leave time for new parents helped MassMutual score well in the annual survey.

MassMutual’s encompassing sense of corporate responsibility – evident in our commitment to ethics and integrity, progressive workplace policies, outreach to disadvantaged populations, philanthropic generosity and employee volunteerism – is woven through the fabric of the company’s culture. Meeting these responsibilities on a daily basis is what fuels our success now and for the long term.

“MassMutual has helped me pursue my dreams by providing assistance with college expenses and helping me buy my first home.” Melissa Ann Neil
Management’s Responsibility for Financial Statements

The management of Massachusetts Mutual Life Insurance Company (MassMutual) is responsible for the integrity and objectivity of the accompanying consolidated statutory financial statements of MassMutual and its United States of America domiciled life insurance subsidiaries (the Company), including estimates and judgments reflected in them, and believes they fairly present the consolidated financial condition of the Company in accordance with statutory accounting principles. The Company engages independent public accountants to audit the fair presentation of its financial statements and disclosures. Copies of the separate company audited statutory financial statements can be obtained by contacting Massachusetts Mutual Life Insurance Company, Corporate Communications, 1295 State Street, Springfield, MA 01111.

Management is responsible for the design and implementation of the internal controls designed to provide reasonable assurance that assets are safeguarded, financial transactions are properly recorded and relevant matters are appropriately disclosed. These controls include appropriate separation of duties, specified delegation of authority, and established policies and procedures that are clearly communicated throughout the Company.

The Company’s professional staff of internal auditors monitor and evaluate the Company’s control structure through periodic reviews and tests of the control aspects of accounting, financial, and operating activities. MassMutual also engaged independent public accountants to examine its internal controls over financial reporting as of December 31, 2006.

An Audit Committee of the Board of Directors of MassMutual, consisting of directors who are not officers or employees of the Company, meets periodically with management, the independent public accountants, and the internal auditors to assure that management fulfills its responsibilities for accounting controls and preparation of financial statements, and that the independent public accountants and internal auditors fulfill their roles.

The accompanying financial statements include the results of MassMutual, C.M. Life Insurance Company, MML Bay State Life Insurance Company, CM Assurance Company, and CM Benefit Insurance Company.
## Consolidated Statutory Statements of Financial Position

### Years Ended December 31,

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>$43,976</td>
<td>$41,153</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>270</td>
<td>143</td>
</tr>
<tr>
<td>Common stocks – subsidiaries and affiliates</td>
<td>2,684</td>
<td>2,551</td>
</tr>
<tr>
<td>Common stocks – unaffiliated</td>
<td>1,204</td>
<td>1,006</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>11,077</td>
<td>9,523</td>
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<tr>
<td>Contract loans</td>
<td>8,032</td>
<td>7,490</td>
</tr>
<tr>
<td>Real estate</td>
<td>1,275</td>
<td>1,307</td>
</tr>
<tr>
<td>Partnerships and limited liability companies</td>
<td>3,956</td>
<td>2,752</td>
</tr>
<tr>
<td>Derivatives and other invested assets</td>
<td>1,044</td>
<td>1,326</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>1,015</td>
<td>4,162</td>
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<tr>
<td><strong>Total invested assets</strong></td>
<td>74,533</td>
<td>71,413</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>715</td>
<td>720</td>
</tr>
<tr>
<td><strong>Other than invested assets</strong></td>
<td>1,338</td>
<td>1,192</td>
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<tr>
<td><strong>Total assets excluding separate accounts</strong></td>
<td>76,586</td>
<td>73,325</td>
</tr>
<tr>
<td>Separate account assets</td>
<td>45,569</td>
<td>40,227</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$122,155</td>
<td>$113,552</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Policyholders’ reserves</td>
<td>$59,887</td>
<td>$57,977</td>
</tr>
<tr>
<td>Liabilities for deposit-type contracts</td>
<td>3,599</td>
<td>4,371</td>
</tr>
<tr>
<td>Contract claims and other benefits</td>
<td>248</td>
<td>257</td>
</tr>
<tr>
<td>Policyholders’ dividends</td>
<td>1,245</td>
<td>1,172</td>
</tr>
<tr>
<td>General expenses due or accrued</td>
<td>752</td>
<td>618</td>
</tr>
<tr>
<td>Federal income taxes</td>
<td>133</td>
<td>112</td>
</tr>
<tr>
<td>Asset valuation reserve</td>
<td>1,784</td>
<td>1,518</td>
</tr>
<tr>
<td>Reverse repurchase agreements</td>
<td>1,183</td>
<td>244</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>855</td>
<td>1,039</td>
</tr>
<tr>
<td><strong>Total liabilities excluding separate accounts</strong></td>
<td>69,686</td>
<td>67,308</td>
</tr>
<tr>
<td>Separate account liabilities</td>
<td>45,442</td>
<td>39,556</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>115,128</td>
<td>106,864</td>
</tr>
<tr>
<td>Surplus</td>
<td>7,027</td>
<td>6,688</td>
</tr>
<tr>
<td><strong>Total liabilities and surplus</strong></td>
<td>$122,155</td>
<td>$113,552</td>
</tr>
</tbody>
</table>

*See notes to consolidated statutory financial statements.*
### Consolidated Statutory Statements of Income

**Years Ended December 31, 2006 and 2005**

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium income</td>
<td>$13,043</td>
<td>$12,624</td>
</tr>
<tr>
<td>Net investment income</td>
<td>4,473</td>
<td>4,328</td>
</tr>
<tr>
<td>Fees and other income</td>
<td>504</td>
<td>473</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td><strong>18,020</strong></td>
<td><strong>17,425</strong></td>
</tr>
<tr>
<td><strong>Benefits and expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policyholders’ benefits, payments and interest on deposit-type contracts</td>
<td>11,373</td>
<td>10,479</td>
</tr>
<tr>
<td>Change in policyholders’ reserves</td>
<td>3,049</td>
<td>3,469</td>
</tr>
<tr>
<td>General insurance expenses</td>
<td>1,178</td>
<td>1,011</td>
</tr>
<tr>
<td>Commissions</td>
<td>548</td>
<td>541</td>
</tr>
<tr>
<td>State taxes, licenses and fees</td>
<td>127</td>
<td>126</td>
</tr>
<tr>
<td><strong>Total benefits and expenses</strong></td>
<td><strong>16,275</strong></td>
<td><strong>15,626</strong></td>
</tr>
<tr>
<td>Net gain from operations before dividends and federal income taxes</td>
<td>1,745</td>
<td>1,799</td>
</tr>
<tr>
<td>Dividends to policyholders</td>
<td>1,226</td>
<td>1,155</td>
</tr>
<tr>
<td>Net gain from operations before federal income taxes</td>
<td>519</td>
<td>644</td>
</tr>
<tr>
<td>Federal income tax (benefit) expense</td>
<td>(42)</td>
<td>103</td>
</tr>
<tr>
<td><strong>Net gain from operations</strong></td>
<td><strong>561</strong></td>
<td><strong>541</strong></td>
</tr>
<tr>
<td>Federal income tax (benefit) expense</td>
<td>(42)</td>
<td>103</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$810</strong></td>
<td><strong>$753</strong></td>
</tr>
</tbody>
</table>

**Consolidated Statutory Statements of Changes in Surplus

**Years Ended December 31, 2006 and 2005**

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus, beginning of year</td>
<td>$6,688</td>
<td>$6,291</td>
</tr>
<tr>
<td>Increase due to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>810</td>
<td>753</td>
</tr>
<tr>
<td>Change in net unrealized capital gains</td>
<td>33</td>
<td>150</td>
</tr>
<tr>
<td>Change in net unrealized foreign exchange capital gains</td>
<td>4</td>
<td>84</td>
</tr>
<tr>
<td>Change in asset valuation reserve</td>
<td>(266)</td>
<td>(333)</td>
</tr>
<tr>
<td>Change in non-admitted assets</td>
<td>(128)</td>
<td>(225)</td>
</tr>
<tr>
<td>Change in reserve valuation basis</td>
<td>—</td>
<td>11</td>
</tr>
<tr>
<td>Change in net deferred income taxes</td>
<td>(57)</td>
<td>37</td>
</tr>
<tr>
<td>Prior period disability reserve adjustment</td>
<td>—</td>
<td>(61)</td>
</tr>
<tr>
<td>Other prior period adjustments</td>
<td>(57)</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>—</td>
<td>(21)</td>
</tr>
<tr>
<td>Net increase</td>
<td>339</td>
<td>397</td>
</tr>
<tr>
<td>Surplus, end of year</td>
<td><strong>$7,027</strong></td>
<td><strong>$6,688</strong></td>
</tr>
</tbody>
</table>

*See notes to consolidated statutory financial statements.*
# Consolidated Statutory Statements of Cash Flows

**Years Ended December 31,**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash from operations:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premium and other income collected</td>
<td>$13,572</td>
<td>$13,106</td>
</tr>
<tr>
<td>Net investment income</td>
<td>4,200</td>
<td>4,134</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(11,202)</td>
<td>(10,233)</td>
</tr>
<tr>
<td>Net transfers to separate accounts</td>
<td>(1,219)</td>
<td>(1,108)</td>
</tr>
<tr>
<td>Commissions and other expenses</td>
<td>(1,714)</td>
<td>(1,718)</td>
</tr>
<tr>
<td>Dividends paid to policyholders</td>
<td>(1,153)</td>
<td>(999)</td>
</tr>
<tr>
<td>Federal and foreign income taxes paid</td>
<td>(25)</td>
<td>(368)</td>
</tr>
<tr>
<td><strong>Net cash from operations</strong></td>
<td>2,459</td>
<td>2,814</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash from investments:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from investments sold, matured, or repaid:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>15,652</td>
<td>23,196</td>
</tr>
<tr>
<td>Common stocks – unaffiliated</td>
<td>1,232</td>
<td>774</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>2,295</td>
<td>3,008</td>
</tr>
<tr>
<td>Real estate</td>
<td>157</td>
<td>240</td>
</tr>
<tr>
<td>Other</td>
<td>1,377</td>
<td>592</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>20,713</td>
<td>27,810</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of investments acquired:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>(18,194)</td>
<td>(22,102)</td>
</tr>
<tr>
<td>Common stocks – unaffiliated</td>
<td>(1,205)</td>
<td>(652)</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>(3,863)</td>
<td>(2,833)</td>
</tr>
<tr>
<td>Real estate</td>
<td>(154)</td>
<td>(8)</td>
</tr>
<tr>
<td>Other</td>
<td>(2,407)</td>
<td>(2,258)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(25,823)</td>
<td>(27,853)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net increase in contract loans</strong></td>
<td>(542)</td>
<td>(388)</td>
</tr>
<tr>
<td><strong>Net cash from investments</strong></td>
<td>(5,652)</td>
<td>(431)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash from financing and other sources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net withdrawals on deposit-type contracts</td>
<td>(1,026)</td>
<td>(766)</td>
</tr>
<tr>
<td>Reverse repurchase agreements</td>
<td>939</td>
<td>192</td>
</tr>
<tr>
<td>Other cash provided (applied)</td>
<td>133</td>
<td>(353)</td>
</tr>
<tr>
<td><strong>Net cash provided (applied) from financing and other sources</strong></td>
<td>46</td>
<td>(927)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net change in cash, cash equivalents and short-term investments</strong></td>
<td>(3,147)</td>
<td>1,456</td>
</tr>
<tr>
<td><strong>Cash, cash equivalents and short-term investments, beginning of year</strong></td>
<td>4,162</td>
<td>2,706</td>
</tr>
<tr>
<td><strong>Cash, cash equivalents and short-term investments, end of year</strong></td>
<td>$ 1,015</td>
<td>$ 4,162</td>
</tr>
</tbody>
</table>

*See notes to consolidated statutory financial statements.*
1. Nature of Operations
MassMutual Financial Group (“MMFG”) is comprised of Massachusetts Mutual Life Insurance Company (“MassMutual”) and its subsidiaries. MMFG is a global, diversified financial services organization providing life insurance, disability income insurance, long-term care insurance, annuities, structured settlement annuities, retirement and savings products, investment management, mutual funds, and trust services to individual and institutional customers. MassMutual is organized as a mutual life insurance company.

2. Summary of Significant Accounting Policies and Practices

a. Basis of Presentation
The consolidated statutory financial statements include the accounts of MassMutual and its wholly owned United States of America (“United States”) domiciled life insurance subsidiaries (collectively, the “Company”): C.M. Life Insurance Company (“C.M. Life”), CM Assurance Company (“CM Assurance”), and CM Benefit Insurance Company (“CM Benefit”), as well as its indirect subsidiary, MML Bay State Life Insurance Company, which is wholly owned by C.M. Life. Other entities comprising MMFG are accounted for under the equity method in accordance with statutory accounting principles. All intercompany transactions and balances for these consolidated entities have been eliminated. Statutory financial statements filed with regulatory authorities are not presented on a consolidated basis.

Two insurance subsidiaries, CM Assurance and CM Benefit, had not issued any insurance policies or collected any premiums. On September 29, 2006, CM Assurance and CM Benefit surrendered their Certificates of Authority and Compliance to the State of Connecticut Insurance Department. The Company liquidated these companies in the fourth quarter of 2006.

The consolidated statutory financial statements have been prepared in conformity with the statutory accounting practices of the National Association of Insurance Commissioners (“NAIC”) and the accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance (“Division”); and for the wholly owned United States domiciled life insurance subsidiaries, the State of Connecticut Insurance Department (“Department”).

Statutory accounting practices are different in some respects from financial statements prepared in accordance with United States generally accepted accounting principles (“GAAP”). The more significant differences between statutory accounting principles and GAAP are as follows: (a) certain acquisition costs, such as commissions and other variable costs, that are directly related to acquiring new business, are charged to current operations as incurred, whereas GAAP generally capitalizes these expenses and amortizes them based on profit emergence over the expected life of the policies or over the premium payment period; (b) statutory policy reserve bases are based upon the Commissioners’ Reserve Valuation Method or net level premium method and prescribed statutory mortality, morbidity and interest assumptions, whereas GAAP reserves would generally be based upon the net level premium method or the estimated gross margin method, with estimates of future mortality, morbidity and interest assumptions; (c) bonds from the current account or mortgage accounts, and variable interest entities, with the company being the primary beneficiary and certain controlled entities are accounted for using the equity method, whereas GAAP would consolidate these entities; (g) surplus notes are reported in surplus, whereas GAAP would report these notes as liabilities; (h) assets are reported at “admitted asset” and “non-admitted assets” are excluded through a charge against surplus, whereas GAAP records these assets net of any valuation allowance; (i) reinsurance reserve credits are reported as a reduction of policyholders’ reserves and liabilities for deposit-type contracts, whereas GAAP would report these balances as an asset; (j) an asset valuation reserve (“AVR”) is reported as a contingency reserve to stabilize surplus against fluctuations in the value of stocks, real estate investments, partnerships, and limited liability companies (“LLCs”) as well as credit-related declines in the value of bonds and mortgage loans, whereas GAAP does not record this reserve; (k) after-tax realized capital gains and losses which result from changes in the overall level of interest rates for all types of fixed-income investments and interest-related hedging activities are deferred into the interest maintenance reserve (“IMR”) and amortized into revenue, whereas GAAP reports these gains and losses as revenue; (l) changes in the fair value of derivative financial instruments are recorded as changes in surplus, whereas GAAP generally reports these changes as revenue unless deemed an effective hedge; (m) comprehensive income is not presented, whereas GAAP presents changes in unrealized capital gains and losses, minimum pension liability, and foreign currency translations as an increase in comprehensive income; (n) embedded derivatives are recorded as part of the underlying contract, whereas GAAP would identify and bifurcate certain embedded derivatives from the underlying contract or security and account for them separately; and (o) certain group annuity and universal life contracts which do not pass through all investment gains to contractual owners are maintained in the separate accounts, whereas GAAP reports these contracts in the general account assets and liabilities of the Company.

The preparation of financial statements requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated statutory financial statements, and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates include those used in determining the carrying values of investments and derivatives, the liability for future policyholders’ reserves and deposit-type contracts, and the amount of investment value reserves on mortgage loans, real estate held for sale, other-than-temporary impairments and the liability for taxes. Future events, including but not limited to, changes in the levels of mortality, morbidity, interest rates, persistency and asset valuations, could cause actual results to differ from the estimates used in the consolidated statutory financial statements. Although some variability is inherent in these estimates, management believes the amounts presented are appropriate.
b. Corrections of Errors and Reclassifications

During 2006, the Company recorded a net pretax decrease to surplus of approximately $114 million attributable to corrections of prior year errors. The Company recorded $57 million through other prior period adjustments, a component of changes in surplus, $41 million through the change in non-admitted assets, and $16 million through the change in net unrealized capital gains. The $16 million decrease was attributable to a pricing error that resulted in an overstatement in the carrying value of common stock and surplus as of December 31, 2005.

Other prior period adjustments of $57 million include $18 million attributable to the establishment of a liability for post-employment benefits for home office employee severance plans and $30 million attributable to the correction in non-traditional life insurance reserves related to errors in a prior year mortality study and mortality factors.

In 2006, the Company recorded tax corrections which decreased surplus by $48 million, of which $41 million was recorded through surplus as a change in non-admitted assets, and $7 million was recorded through other prior period adjustments. In 2002 and 2003, the Company had incorrectly recorded its net deferred tax asset and federal income tax liability. The correction of these items to the net deferred tax asset in 2006 was non-admitted. These errors relate to the reporting of tax settlements with the federal government and the adjustment to taxes following the submission of the Company’s 2001 federal income tax return.

During 2005, the Company implemented a new disability income active life reserve system. As a result, the Company recorded a prior period disability reserve adjustment, increasing the active life reserves by $52 million and disabled life reserves by $9 million, and these increases were recorded as a charge to surplus. These adjustments for both years complied with Statutory Statement of Accounting Principles (“SSAP”) No. 3, “Accounting Changes and Corrections of Errors.”

During 2006, the Company reclassified custodial receipt investments of $906 million from cash, cash equivalents and short-term investments to bonds in its Consolidated Statutory Statements of Financial Position. Additionally, the reclassification was recorded as bonds acquired in the Consolidated Statutory Statements of Cash Flows. The reclassification was made after the NAIC Securities Valuation Office (“SVO”) designated the custodial receipts as long-term bonds. The associated net investment income is now reported as long-term bond income. This change had no impact on net income. The December 31, 2005 custodial receipt investments’ balances totaling $868 million were not reclassified. If these balances were reclassified, the December 31, 2005 cash, cash equivalents and short-term investments’ and bonds’ balances would have been $3,294 million and $42,021 million, respectively.

Certain 2005 balances have been reclassified to conform to the current year presentation.

c. Bonds

Generally, bonds are valued at amortized cost using the constant yield interest method. Bond transactions are recorded on a trade-date basis, except for private placement bonds which are recorded on the funding date.

The fair value of bonds is based on values provided by the NAIC’s Securities Valuation Office (“SVO”) when available. If SVO values are not available, quoted market values provided by other third-party organizations are used. If quoted market values are unavailable, fair value is estimated by discounting expected future cash flows using current market rates applicable to yield, credit quality and maturity of the investment or using quoted market values for comparable investments.

For fixed income securities that do not have a fixed schedule of payments, such as asset-backed, mortgage-backed and structured securities, the effect on amortization or accretion is revalued quarterly based on the current estimated cash flows, using either the prospective or retrospective adjustment methodologies, consistently applied by type of security. Certain high quality fixed income securities follow the retrospective method of accounting. Under the retrospective method, the recalculated effective yield equates the present value of the actual and anticipated cash flows, including new prepayment assumptions, to the original cost of the investment. Prepayment assumptions are based on borrower constraints and economic incentives such as the original term, age and coupon of the loan as affected by the interest rate environment. The current carrying value is then increased or decreased to the amount that would have resulted had the revised yield been applied since inception, and investment income is correspondingly decreased or increased. The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective adjustment method to securities purchased prior to that date. All other fixed securities, such as floating rate bonds and interest only securities, follow the prospective method of accounting. Under the prospective method, the recalculated future effective yield equates the carrying value of the investment to the present value of the anticipated future cash flows.

The carrying values of bonds and mortgage-backed and asset-backed securities are written down to fair value when a decline in value is considered to be other-than-temporary. The Company considers the following factors in the evaluation of whether a non-interest related decline in value is other-than-temporary: (a) the financial condition and near-term prospects of the issuer; (b) the likelihood that the Company will be able to collect all amounts due according to the contractual terms of a debt security in effect at the date of acquisition; (c) the Company’s ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; and (d) the period and degree to which the market value has been below cost. The Company considers the following factors in the evaluation of whether an interest related decline in value is other-than-temporary: (a) the Company’s near term intent to sell; (b) the Company’s contractual and regulatory obligations; and (c) the Company’s ability to hold the investment until anticipated recovery of the cost of the investment. The Company conducts a quarterly management review of all bonds including those in default, not-in-good-standing, or valued below 80% of cost. The Company also considers other qualitative and quantitative factors in determining the existence of other-than-temporary impairments including, but not limited to, unrealized loss trend analysis and significant short-term changes. If the impairment is other-than-temporary, a direct write-down is recognized in realized capital losses and a new cost basis is established.
d. Preferred Stocks
Generally, preferred stocks in good standing are valued at amortized cost. Preferred stocks not in good standing are valued at the lower of amortized cost or fair value. Fair values of preferred stocks are based on published market values, where available. For preferred stocks without readily ascertainable market value, the Company has determined an estimated fair value using broker-dealer quotations or management pricing model.

As of December 31, 2006 and 2005, the Company had a carrying value of $152 million and $26 million, respectively, in preferred stocks for which the transfer of ownership was restricted by contractual requirements.

e. Common Stocks – Subsidiaries and Affiliates
Common stocks of unconsolidated subsidiaries, including MassMutual Holding LLC (“MMHLLC”), are accounted for using the equity method. The Company accounts for the value of its investment in its subsidiary, MMHLLC, at its underlying GAAP net equity, adjusted for certain non-admitted assets. Operating results, less dividend distributions, for MMHLLC are reflected as net unrealized capital gains in the Consolidated Statutory Statements of Changes in Surplus. Dividend distributions by MMHLLC are recorded in net investment income. Dividend distributions to the Company are limited to MassMutual’s equity in MMHLLC.

f. Common Stocks – Unaffiliated
Common stocks, including warrants, are valued at fair value with unrealized capital gains and losses included as a change in surplus. Common stock transactions are recorded on a trade-date basis.

The fair value of common stocks is based on values provided by the SVO when available. If SVO values are not available, quoted market values provided by other third-party organizations are used. If quoted market values are unavailable, fair value is estimated by using internal models.

The cost basis of common stocks is adjusted for impairments deemed to be other-than-temporary. The Company considers the following factors in the evaluation of whether a decline in value is other-than-temporary: (a) the financial condition and near-term prospects of the issuer; (b) the Company’s ability and intent to hold the investment for a period of time sufficient to allow for an anticipated recovery in value; and (c) the period and degree to which the market value has been below cost. The Company conducts a quarterly management review of all common stock issuers including those not-in-good standing or valued below 70% of cost. The Company also considers other qualitative and quantitative factors in determining the existence of other-than-temporary impairments including, but not limited to, unrealized loss trend analysis and significant short-term changes. If the impairment is other-than-temporary, a direct write-down to fair value is recognized in realized capital losses and a new cost basis is established.

g. Mortgage Loans on Real Estate
Mortgage loans are valued at the unpaid principal balance of the loan, net of unamortized premiums and discounts, non-refundable commitment fees and mortgage interest points, and valuation allowances. The mortgage loan portfolio is comprised of commercial mortgage loans, including mezzanine loans, and residential mortgage loan pools. Mezzanine loans are loans secured by a pledge of direct or indirect equity interest in an entity that owns real estate. Residential mortgage loan pools are pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration and Veterans Administration guarantees.

The fair value of mortgage loans is estimated by discounting expected future cash flows using current interest rates for similar loans with similar credit risk. For non-performing loans, the fair value is the estimated collateral value of the underlying real estate.

When, based upon current information and events, it is probable that the Company will be unable to collect all amounts of principal and interest due according to the contractual terms of the mortgage loan agreement, a valuation allowance is established for the excess of the carrying value of the mortgage loan over its fair value. Collectibility and estimated recoveries are assessed on a loan-by-loan basis considering all events and conditions relevant to the loan. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revisions as more information becomes available, as changes occur in the market or as negotiations with the borrowing entity evolve. Changes to the valuation allowance are recorded as unrealized capital losses in surplus.

When an event occurs resulting in an impairment that is other-than-temporary, a direct write-down is recognized in realized capital losses and a new cost basis is established. An impairment is deemed other-than-temporary when foreclosure proceedings or other procedures leading to the acquisition of the collateral are initiated, the acquisition of the collateral is probable, and a reasonable estimate of the collateral value has been determined.

Interest income earned on impaired loans is accrued on the outstanding principal balance of the loan based on the loan’s contractual coupon rate. Interest is not accrued for impaired loans more than 60 days past due, for loans delinquent more than 90 days, or when collection is improbable. The Company continually monitors mortgage loans where the accrual of interest has been discontinued, and will resume the accrual of interest on a mortgage loan when the facts and circumstances of the borrower and property indicate that the payments will continue to be received per the terms of the original mortgage loan agreement or modified mortgage loan agreement.

h. Contract Loans
Contract loans are carried at the outstanding loan balance less amounts unsecured by the cash surrender value of the policy. At issuance, contract loans are fully secured by the cash surrender value of the policy. Unsecured amounts can occur when subsequent charges are incurred on the underlying policy without the receipt of additional premium. Unsecured amounts were approximately $1 million and approximately $2 million as of December 31, 2006 and 2005, respectively, which were non-admitted. The majority of contract loans are variable rate loans adjusted annually. The carrying value for contract loans approximates the fair value reported in the Consolidated Statutory Statements of Financial Position. Accrued investment income on contract loans more than 90 days past due is included in the unpaid balance of the contract loan.
Notes to Consolidated Statutory Financial Statements  (continued)

i. Real Estate
Investment real estate, which the Company has the intent to hold for the production of income, and real estate occupied by the Company are carried at depreciated cost, less encumbrances. Depreciated cost is adjusted for impairments whenever events or changes in circumstances indicate the carrying amount of the asset may not be recoverable, with the impairment being included in realized capital losses. Depreciation is calculated using the straight-line method over the estimated useful life of the real estate holding, not to exceed 40 years. Depreciation expense is included in net investment income.

Real estate held-for-sale is carried at the lower of depreciated cost or fair value, less selling costs. Real estate classified as held-for-sale is not depreciated. Adjustments to the carrying value of real estate held-for-sale are recorded when fair value less selling costs is below depreciated cost and are included in realized capital losses.

Real estate acquired in satisfaction of debt is recorded at the lower of cost or fair value at the date of foreclosure.

Fair value is generally estimated using the present value of expected future cash flows discounted at a rate commensurate with the underlying risks. The Company also obtains external appraisals for a rotating sample of properties on an annual basis.

j. Partnerships and Limited Liability Companies
Partnerships and LLCs, except for investments in partnerships which generate low income housing tax credits ("LIHTC"), are accounted for using the equity method with the change in the equity value of the underlying investment recorded in surplus. When it appears probable that the Company will be unable to recover the outstanding carrying value of an investment, or there is evidence indicating an inability of the investee to sustain earnings to justify the carrying value of the investment, an other-than-temporary impairment is recognized in realized capital losses for the excess of the carrying value over the estimated fair value of the investment. The estimated fair value is determined by assessing the value of the partnership or LLC’s underlying assets, cash flow, current financial condition and other market factors. Distributions not deemed to be a return of capital are recorded in net investment income when received.

Investments in partnerships which generate LIHTC are carried at amortized cost unless considered impaired. Under the amortized cost method, the excess of the carrying value of the investment over its estimated residual value is amortized into income during the period in which tax benefits are allocated. For determining impairments in partnerships which generate LIHTC, the Company uses the present value of all future benefits, the majority of which are tax credits, discounted at a 6.0% risk-free rate of return and compares the result to its current book value. Impairments are recognized as realized capital losses.

k. Derivatives and Other Invested Assets
Other investments consist of investments in derivative financial instruments and other miscellaneous investments.

The Company also uses a combination of derivatives and fixed income investments to create synthetic investment positions. These combined investments are created opportunistically when they are economically more attractive than the replicated instrument or when the replicated instrument is unavailable. To a much lesser extent, some of these combinations are considered replication (synthetic asset) transactions as permitted under statutory accounting principles. The Company’s derivative strategy employs a variety of derivative financial instruments, including interest rate swaps, currency swaps, equity and credit default swaps, options, interest rate caps and floors, forward commitments, and financial futures. Investment risk is assessed on a portfolio basis and individual derivative financial instruments are not designated in hedging relationships; therefore, as allowed by accounting rules, the Company specifically and intentionally made the decision not to apply hedge accounting.

Derivative financial instruments are carried at estimated fair value, which is based primarily upon quotations obtained from independent sources. Changes in the fair value of these instruments are recorded as unrealized capital gains and losses in surplus. Gains and losses realized on the termination, closing or assignment of contracts are recorded as realized capital gains and losses. Amounts receivable and payable are accrued.

l. Cash, Cash Equivalents and Short-Term Investments
The Company considers all highly liquid investments purchased with maturities of three months or less to be cash and cash equivalents.

Short-term investments, which are carried at amortized cost, consist of all highly liquid investments purchased with maturities of greater than three months and less than or equal to 12 months. Repurchase agreements and investments in money market mutual funds are classified as short-term investments.

The Company has entered into repurchase agreements whereby the Company purchases securities and simultaneously agrees to resell the same or substantially the same securities. Repurchase agreements are accounted for as collateralized lendings with the cash paid for the securities recorded in the consolidated statutory financial statements as a short-term investment. The underlying securities are not recorded as investments owned by the Company. The difference between the amount paid and the amount at which the securities will be subsequently resold is reported as interest income. At purchase, the Company requires collateral in the form of securities having a fair value of a minimum of 102% of the securities’ purchase price. If at any time the fair value of the collateral declines to less than 100% of the securities’ purchase price, the counterparty is obligated to provide additional collateral to bring the total collateral held by the Company to at least 102% of the securities’ purchase price.

The carrying value reported in the Consolidated Statutory Statements of Financial Position for these instruments approximates the fair value.

m. Securities Lending
The Company participates in a fee-based securities lending program whereby certain securities are loaned to third-party brokers. The Company retains control over loaned securities, which remain assets of the Company and are not removed from the accounting
n. Investment Income Due and Accrued
Accrued investment income consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned on the ex-dividend date. Due and accrued income is not recorded on: (a) bonds in default; (b) impaired bonds and mortgage loans more than 60 days past due; (c) bonds and mortgage loans delinquent more than 90 days or where collection of interest is improbable; (d) rent in arrears for more than 90 days; and (e) contract loan interest due and accrued in excess of the cash surrender value of the underlying contract.

o. Other Than Invested Assets
Other than invested assets primarily includes deferred taxes, fixed assets, goodwill, outstanding premium, and reinsurance recoverables. Fixed assets are included in other than invested assets at cost less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Estimated lives range from one to 10 years for leasehold improvements and three to 10 years for all other fixed assets. Most unamortized software and office equipment are non-admitted assets. Goodwill, which consists of a management contract assumed when the ownership of an affiliate was transferred to the Company in 2006, was $9 million, net of accumulated amortization of $2 million, as of December 31, 2006. The goodwill will be amortized to unrealized capital losses through 2009. In those instances when goodwill results from the purchase of a subsidiary, it shall be amortized to unrealized capital losses over the period in which the acquiring entity benefits economically, not to exceed 10 years.

p. Non-Admitted Assets
Assets designated as non-admitted by the NAIC include furniture, certain equipment, unamortized software, the amount of the deferred tax asset that will not be realized by the end of the next calendar year, the prepaid pension plan asset, the interest maintenance reserve in a net asset position, certain investments in partnerships for which audits are not performed, and certain other receivables, advances and prepayments. Such amounts are excluded from the Consolidated Statutory Statements of Financial Position.

q. Separate Accounts
Separate account assets and liabilities represent segregated funds administered and invested by the Company for the benefit of individual and group variable annuity, variable life and other insurance policyholders. Assets consist principally of marketable securities reported at fair value and are not available to satisfy liabilities that arise from any other business of the Company. Separate account liabilities represent segregated policyholder funds administered and invested by the Company to meet specific investment objectives of the policyholders. The Company receives administrative and investment advisory fees from these accounts.

Separate accounts reflect two categories of risk assumption: non-guaranteed separate accounts for which the policyholder assumes the investment risk; and guaranteed separate accounts for which the Company contractually guarantees either a minimum return or minimum account value to the policyholder. Premium income, benefits and expenses of the separate accounts are reported as a component of net income. Investment income and realized and unrealized capital gains and losses on the assets of separate accounts accrue to policyholders and, accordingly, are not recorded as a component of net income.

The Company may transfer investments from the general account to seed separate investment accounts. Investments transferred to separate accounts are transferred at their fair market value on the date the transaction occurs. Gains related to the transfer are deferred to the extent that the Company maintains a proportionate interest in the separate account. The deferred gain is recognized as the Company’s ownership decreases or when the separate account sells the underlying asset during the normal course of business. Realized capital losses associated with these transfers are recognized immediately.

r. Policyholders’ Reserves
Policyholders’ reserves provide amounts adequate to discharge estimated future obligations in excess of estimated future premium on policies in force.

Reserves for life insurance contracts are developed using accepted actuarial methods computed principally on the net level premium and the Commissioners’ Reserve Valuation Method bases using the American Experience and the 1941, 1958, 1980 and 2001 Commissioners’ Standard Ordinary mortality tables with assumed interest rates.

Reserves for individual annuities are based on account value or accepted actuarial methods, generally the Commissioners’ Annuity Reserve Valuation Method using applicable interest rates.

Disability income policy reserves are generally calculated using the two year preliminary term, net level premium and fixed net premium methods, and using the 1964 Commissioner Disability Table and the 1985 Commissioner Individual Disability Table A morbidity tables with assumed interest rates.

Disabled life claim reserves are calculated using an actuarially accepted methodology and the 1964 Commissioner Disability Table, 1985 Commissioner Individual Disability Table A, and 2001 Commissioner Individual Disability Table C morbidity tables.

Unpaid claims and claim expense reserves are related to disability and long-term care claims with long-tail payouts. Unpaid disability claim liabilities are projected based on the average of the last three disability payments paid prior to the valuation date. Claim expense reserves are based on an analysis of the unit expenses related to the
processing and examination of new and ongoing claims. Interest accrued on reserves is calculated by applying NAIC prescribed interest rates to the average reserves by incural year.

Tabular interest, tabular less actual reserves released, and tabular cost for all life contracts are determined in accordance with NAIC annual statement instructions. Traditional life, permanent and term products use a formula that applies a weighted-average interest rate determined from a seriatim valuation file to the mean average reserves. Universal life, variable life and group life insurance products use a formula which applies a weighted-average credited rate to the mean account value.

The Company waives deduction of deferred fractional premium at death and returns any portion of the final premium beyond the date of death. Reserves are computed using continuous functions to reflect these practices.

The same reserve methods applied to standard policies are used for substandard reserve calculations that are based on a substandard mortality rate (a multiple of standard reserve tables).

The Company had total life insurance in force of $402,480 million and $382,617 million as of December 31, 2006 and 2005, respectively. Of this total, the Company had $42,286 million and $33,120 million of life insurance in force as of December 31, 2006 and 2005, respectively, for which the gross premium was less than the net premium according to the standard valuation set by the Division and the Department. The gross premium is less than the net premium needed to establish the reserves because the statutory reserves must use industry standard mortality tables, while the gross premium calculated by pricing uses mortality tables that reflect both the Company’s experience and the transfer of mortality risk to reinsurers.

Certain variable universal life and variable individual annuity products issued by the Company offer various guaranteed minimum death, accumulation and income benefits. The liabilities for guaranteed minimum death benefits (“GMDB”), guaranteed minimum accumulation benefits (“GMAB”) and guaranteed minimum income benefits (“GMIB”) are included in policyholders’ reserves and the related changes in these liabilities are included in change in policyholders’ reserves.

A GMDB generally provides a benefit if the contract holder dies and the contract value is less than a specified amount. This amount is based on the premium paid less amounts withdrawn or contract value on a specified anniversary date. For an annuity contract, a decline in the stock market causing the contract value to fall below this specified amount will increase the net amount at risk, which is the GMDB in excess of the contract value.

A GMAB is a living benefit that provides the contract holder with a guaranteed minimum contract value at a specified time after its inception. If the account value is below that guarantee at the end of the specified period, it is increased to the guaranteed level and the contract continues from that point. Options for the guarantee period are 10 and 20 years. The 10 year variant may be reset annually after the initial two year period; resetting the benefit restarts the 10 year waiting period. In general, the GMAB requires a guaranteed term selection and adherence to limitations required by an approved asset allocation strategy.

A GMIB is a living benefit that provides the contract holder with a guaranteed minimum annuitization value. The GMIB would be beneficial to the contract holder if the contract holder’s account value is lower than the GMIB value at the time of annuitization.

The Company’s annuity and variable universal life GMDB, GMAB, and GMIB reserves are calculated in accordance with actuarial guidelines.

All policyholders’ reserves and accruals are based on the various estimates discussed previously and are presented net of reinsurance. Management believes that these liabilities and accruals will be sufficient, in conjunction with future revenues, to meet future anticipated obligations of policies and contracts in force.

s. Liabilities for Deposit-Type Contracts

Reserves for funding agreements, dividend accumulations, premium deposit funds and investment-type contracts such as supplementary contracts not involving life contingencies and certain structured settlement annuities are based on account value or accepted actuarial methods using applicable interest rates. Fair value is estimated by discounting expected future cash flows using current market rates.

t. Policyholders’ Dividends

The liability for policyholders’ dividends includes the estimated amount of annual dividends and settlement dividends expected to be paid to policyholders in the following year. Policyholders’ dividends incurred are recorded in the Consolidated Statutory Statements of Income. Dividends expected to be paid to policyholders in the following year are approved annually by MassMutual’s Board of Directors. The allocation of these dividends to policyholders reflects the relative contribution of each group of participating policies to surplus and considers, among other factors, investment returns, mortality and morbidity experience, expenses, and income tax charges. Settlement dividends are an extra dividend payable at termination of a policy upon maturity, death, or surrender.

u. Asset Valuation Reserve

The Company maintains an asset valuation reserve (“AVR”). The AVR is a contingency reserve to stabilize surplus against fluctuations in the statement value of stocks, real estate investments, partnerships and LLCs as well as credit-related declines in the value of bonds and mortgage loans. AVR is reported in the Consolidated Statutory Statements of Financial Position and the change in AVR is reported in the Consolidated Statutory Statements of Changes in Surplus.

v. Reverse Repurchase Agreements

The Company has entered into reverse repurchase agreements whereby the Company sells securities and simultaneously agrees to repurchase the same or substantially the same securities. Reverse repurchase agreements are accounted for as collateralized borrowings, with the proceeds from the sale of the securities recorded as a liability and the underlying securities recorded as an investment by the Company. Earnings on these investments are recorded as investment income and the difference between the proceeds and the amount at which the securities will be subsequently reacquired is
amortized as interest expense, a component of investment expense which is classified as net investment income on the Consolidated Statutory Statements of Income.

The Company provides collateral as dictated by the reverse repurchase agreement to the counterparty in exchange for a loan amount. If the fair value of the securities sold becomes less than the loan amount, the counterparty may require additional collateral.

w. Other Liabilities
Other liabilities primarily include liabilities related to collateral held on derivative contracts, due and accrued expenses, and amounts held for agents.

x. Surplus
Surplus of the Company is reported to regulatory authorities and is intended to protect policyholders against possible adverse experience.

y. Participating Contracts
Participating contracts issued by the Company represented approximately 62% and 60% of the Company’s policyholders’ reserves and liabilities for deposit-type contracts as of December 31, 2006 and 2005, respectively.

z. Reinsurance
The Company enters into reinsurance agreements with other insurance companies in the normal course of business in order to limit its insurance risk. Premium income, benefits to policyholders, and policyholders’ reserves are stated net of reinsurance. Premium income, commissions, expense reimbursements, benefits and reserves related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. The Company remains primarily liable to the insured for the payment of benefits if the reinsurer cannot meet its obligations under the reinsurance agreements.

aa. Premium and Related Expense Recognition
Life insurance premium revenue is generally recognized annually on the anniversary date of the policy and excess premium for flexible products is recognized when received. Annuity premium is recognized as revenue when received. Disability income premium is recognized as revenue when due. Commissions and other costs related to issuance of new policies, and policy maintenance and settlement costs are charged to current operations when incurred. Surrender fee charges on certain life and annuity products are recognized as revenue when due. Commissions and other costs related to issuance of new policies, and policy maintenance and settlement costs are charged to current operations when incurred. Surrender fee charges on certain life and annuity products are recognized as revenue when due.

bb. Realized and Unrealized Capital Gains and Losses
Realized capital gains and losses, net of taxes, exclude gains and losses deferred into the IMR and gains and losses of the separate accounts. Realized capital gains and losses are recognized in net income and are determined using the specific identification method.

All after-tax realized capital gains and losses which result from changes in the overall level of interest rates for all types of fixed-income investments and interest-related hedging activities are deferred into the IMR and amortized into revenue. These interest-related gains and losses are amortized into net investment income using the grouped method over the remaining life of the investment sold or, in the case of derivative financial instruments, over the remaining life of the underlying asset.

Unrealized capital gains and losses are recorded as a change in surplus.

3. New Accounting Standards

a. Adoption of New Accounting Standards
In June 2005, the National Association of Insurance Commissioners ("NAIC") issued Statement of Statutory Accounting Principles ("SSAP") No. 90 “Accounting for the Impairment or Disposal of Real Estate Investments, and Discontinued Operations” with an effective date of January 1, 2006. SSAP No. 90 establishes statutory accounting principles for the impairment or disposal of real estate investments and the treatment of long-lived assets associated with discontinued operations including non-admitted intangible assets other than goodwill. It also establishes statutory accounting principles for properties held for sale. Those properties shall be carried at the lower of depreciated cost or fair value less encumbrances and estimated costs to sell the property. Depreciation is not recognized on held for sale properties. An impairment loss shall be recognized if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Adoption of this statement did not result in a material impact to the Company’s consolidated financial condition or results of operations.

In June 2005, the NAIC issued SSAP No. 93 “Accounting for Low Income Housing Tax Credit Property Investments” with an effective date of January 1, 2006. SSAP No. 93 establishes statutory accounting principles for investments in federal and certain state sponsored Low Income Housing Tax Credit ("LIHTC") properties. State sponsored LIHTC programs that are not in compliance with SSAP No. 93 shall continue to be accounted for in accordance with the requirements of SSAP No. 48 “Joint Ventures, Partnerships and Limited Liability Companies.” The Company recorded a charge to surplus of $20 million to convert the LIHTC investment book values from the equity method to the amortized cost method and a related deferred tax asset of $7 million resulting in a $13 million cumulative effective adjustment after tax. Due to the non-admission of certain deferred tax assets under SSAP No. 10 “Income Taxes,” the deferred tax asset of $7 million was non-admitted resulting in a $20 million overall reduction to surplus.

In June 2006, the NAIC issued SSAP No. 94 “Accounting for Transferable State Tax Credits” with an effective date of December 31, 2006. SSAP No. 94 establishes statutory accounting principles for transferable state tax credits that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy. Transferable state tax credits held by reporting entities meet the definition of assets as specified in SSAP No. 4 “Assets and Nonadmitted Assets” and will be admissible assets to the extent the tax credits comply with the requirements of this statement. Adoption of this statement occurred in the fourth quarter of 2006 and did not result in a material impact to the Company’s consolidated financial condition or results of operations.
In September 2006, the NAIC issued SSAP No. 95 “Exchanges of Nonmonetary Assets, A Replacement of SSAP No. 28 – Nonmonetary Transactions” with an effective date of January 1, 2007. SSAP No. 95 establishes statutory accounting principles for nonmonetary transactions. Specific statutory requirements for certain types of nonmonetary transactions are addressed in other statements. Accounting for nonmonetary transactions shall generally be based on the fair values of the assets (or services) involved. Consequently, this statement adopts FAS No. 153 “Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29.” The Company does not expect adoption of this statement to have a material impact on the Company’s consolidated financial condition or results of operations.

In December 2006, the NAIC issued SSAP No. 96 “Settlement Requirements for Intercompany Transactions, An Amendment to SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties” with an effective date of January 1, 2007. This statement establishes a statutory aging threshold for admission of loans and advances to related parties outstanding as of the reporting date. In addition, this statement establishes an aging threshold for admission of receivables associated with transactions for services provided to related parties outstanding as of the reporting date. In addition, this statement establishes an aging threshold for admission of receivables associated with transactions for services provided to related parties outstanding as of the reporting date. SSAP No. 96 requires that transactions between related parties be in writing and that written agreements provide for the timely settlement of amounts owed, with a specific due date. Amounts outstanding greater than 90 days from the due date would be non-admitted. The Company does not expect adoption of this statement to have a material impact on the Company’s consolidated financial condition or results of operations.

4. Investments

The Company maintains a diversified investment portfolio. Investment policies limit concentration in any asset class, geographic region, industry group, economic characteristic, investment quality, or individual investment.

a. Bonds

The carrying value and fair value of bonds were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Value</td>
</tr>
<tr>
<td>U.S. government</td>
<td>$4,738</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>36</td>
</tr>
<tr>
<td>Political subdivisions of states, territories and possessions</td>
<td>101</td>
</tr>
<tr>
<td>Special revenue</td>
<td>5,415</td>
</tr>
<tr>
<td>Public utilities</td>
<td>1,628</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>29,644</td>
</tr>
<tr>
<td>Credit tenant loans</td>
<td>216</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>2,198</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,976</strong></td>
</tr>
</tbody>
</table>

The proceeds from sales, gross realized capital gain and loss activity on sales and other-than-temporary impairments on bonds were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$1,080</td>
<td>$1,084</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>9,460</td>
<td>9,594</td>
</tr>
<tr>
<td>Due after five years through 10 years</td>
<td>11,954</td>
<td>12,081</td>
</tr>
<tr>
<td>Due after 10 years</td>
<td>21,482</td>
<td>21,737</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,976</strong></td>
<td><strong>$44,496</strong></td>
</tr>
</tbody>
</table>

The table below sets forth the SVO ratings for the bond portfolio along with what the Company believes are the equivalent rating agency designations:

<table>
<thead>
<tr>
<th>$ In Millions</th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAIC Class</td>
<td>Carrying Value</td>
<td>% of Total</td>
</tr>
<tr>
<td>1 Aaa/Aa/A</td>
<td>$29,559</td>
<td>67%</td>
</tr>
<tr>
<td>2 Baa</td>
<td>10,571</td>
<td>24%</td>
</tr>
<tr>
<td>3 Ba</td>
<td>1,854</td>
<td>4%</td>
</tr>
<tr>
<td>4 B</td>
<td>1,464</td>
<td>3%</td>
</tr>
<tr>
<td>5 Caa and lower</td>
<td>305</td>
<td>1%</td>
</tr>
<tr>
<td>6 In or near default</td>
<td>223</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,976</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

The following table summarizes the carrying value and fair value of bonds as of December 31, 2006 by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties. Securities that are not due on a single maturity date are included as of the final maturity.

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due in one year or less</td>
<td>$1,080</td>
<td>$1,084</td>
</tr>
<tr>
<td>Due after one year through five years</td>
<td>9,460</td>
<td>9,594</td>
</tr>
<tr>
<td>Due after five years through 10 years</td>
<td>11,954</td>
<td>12,081</td>
</tr>
<tr>
<td>Due after 10 years</td>
<td>21,482</td>
<td>21,737</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$43,976</strong></td>
<td><strong>$44,496</strong></td>
</tr>
</tbody>
</table>

The proceeds from sales, gross realized capital gain and loss activity on sales and other-than-temporary impairments on bonds were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Carrying Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sales</td>
<td>$7,356</td>
<td>$13,622</td>
</tr>
<tr>
<td>Gross realized capital gains on sales</td>
<td>93</td>
<td>112</td>
</tr>
<tr>
<td>Gross realized capital losses on sales</td>
<td>92</td>
<td>94</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>36</td>
<td>63</td>
</tr>
</tbody>
</table>

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Notes to Consolidated Statutory Financial Statements

Portions of the interest related realized capital gains and losses were deferred into the IMR.

The Company employs a systematic methodology to evaluate declines in fair value below book value. The methodology to evaluate declines in fair value utilizes a quantitative and qualitative process ensuring that available evidence concerning the declines is evaluated in a disciplined manner. The book values of investments are written down to fair value when a decline in value is considered to be other-than-temporary.

As of December 31, 2006 and 2005, the Company had $16 million and $65 million, respectively, of unrealized losses recorded as a reduction to its carrying value of bonds. These unrealized losses include both NAIC 6 rated bonds recorded as changes in net unrealized capital gains and foreign currency fluctuations recorded as changes in net unrealized foreign exchange capital gains on the Consolidated Statutory Statements of Changes in Surplus. The following is an analysis of the fair values and gross unrealized losses aggregated by bond category and length of time that the securities were in a continuous unrealized loss position as of December 31, 2006 and 2005.

<table>
<thead>
<tr>
<th>Bond Category</th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 12 months</td>
<td>12 months or longer</td>
</tr>
<tr>
<td></td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
</tr>
<tr>
<td>U.S. government</td>
<td>$624</td>
<td>$3</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Political subdivisions of states, territories and possessions</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Special revenue</td>
<td>1,604</td>
<td>15</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>4,905</td>
<td>65</td>
</tr>
<tr>
<td>Credit tenant loans</td>
<td>39</td>
<td>—</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>121</td>
<td>114</td>
</tr>
<tr>
<td></td>
<td>$7,480</td>
<td>$199</td>
</tr>
</tbody>
</table>

For U.S. government and special revenue investments, the unrealized losses as of December 31, 2006 were primarily caused by increases in interest rates since original purchase. The unrealized loss for a period of 12 months or more for special revenue investments amounted to $32 million. These investments are of the highest credit quality rating and are backed by the U.S. government or government-sponsored agencies. For U.S. governments, $8 million was in an unrealized loss position for a period of 12 months or more. The contractual terms of these investments are guaranteed by the full faith and credit of the U.S. government and cannot be settled for less than par at maturity.

For industrial and miscellaneous and public utilities, the majority of the unrealized losses as of December 31, 2006 were due to changes in interest rates and were spread across multiple industry sectors with no single sector experiencing a disproportionate amount of losses as compared to other sectors. For these investments, $277 million was in an unrealized loss position for a period of 12 months or more.

Based on the Company’s policies for the evaluation of impairments discussed in Note 2c, the Company did not consider these investments to be other-than-temporarily impaired as of December 31, 2006.
Notes to Consolidated Statutory Financial Statements (continued)

For U.S. government and special revenue investments, the unrealized losses as of December 31, 2005 were primarily caused by increases in interest rates since original purchase. The unrealized loss for a period of 12 months or more for special revenue investments amounted to $8 million. These investments are of the highest credit quality rating and are backed by the U.S. government or government-sponsored agencies. For U.S. governments, $3 million was in an unrealized loss position for a period of 12 months or more. The contractual terms of these investments are guaranteed by the full faith and credit of the U.S. government and cannot be settled for less than par at maturity.

For industrial and miscellaneous and public utilities, the majority of the unrealized losses as of December 31, 2005 were due to changes in interest rates and were spread across multiple industry sectors with no single sector experiencing a disproportionate amount of losses as compared to other sectors. For these investments, $93 million was in an unrealized loss position for a period of 12 months or more.

Based on the Company’s policies for the evaluation of impairments discussed in Note 2c, the Company did not consider these investments to be other-than-temporarily impaired as of December 31, 2005.

For the year ended December 31, 2006, the Company had one wash sale transaction of an NAIC 3 rated bond with a book value of $1 million. The cost of the repurchased security and the gain on the transaction were less than $1 million.

b. Common Stocks – Unaffiliated
The cost and carrying value of common stocks were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, 2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$ 895</td>
<td>$ 737</td>
</tr>
<tr>
<td>Gross unrealized gains</td>
<td>335</td>
<td>308</td>
</tr>
<tr>
<td>Gross unrealized losses</td>
<td>(26)</td>
<td>(39)</td>
</tr>
<tr>
<td>Carrying value</td>
<td>$1,204</td>
<td>$1,006</td>
</tr>
</tbody>
</table>

The gain and loss activity of common stocks were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Years Ended December 31, 2006, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross realized capital gains on sales</td>
<td>$232</td>
</tr>
<tr>
<td>Gross realized capital losses on sales</td>
<td>33</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>8</td>
</tr>
</tbody>
</table>

As of December 31, 2006, investments in common stock in an unrealized loss position included holdings with a fair value of $76 million in 202 issuers. These holdings were in an unrealized loss position of $26 million, $10 million of which were in an unrealized loss position more than 12 months. As of December 31, 2005, investments in common stock with an unrealized loss position included holdings with a fair value of $146 million in 216 issuers. These holdings were in an unrealized loss position of $37 million, $17 million of which were in an unrealized loss position more than 12 months. Based upon the Company’s impairment review process, the decline in value of these securities was not considered to be other-than-temporary as of December 31, 2006 and 2005.

As of December 31, 2006 and 2005, the Company had a carrying value of $336 million and $232 million, respectively, in common stocks for which the transfer of ownership was restricted by contractual requirements.

c. Mortgage Loans on Real Estate
Mortgage loans, comprised of commercial mortgage loans and residential mortgage loan pools, were $11,077 million and $9,523 million, net of valuation allowances of $24 million and $5 million as of December 31, 2006 and 2005, respectively. The Company’s commercial mortgage loans primarily finance various types of commercial real estate properties throughout the United States. Residential mortgage loan pools are pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration and Veterans Administration guarantees. On occasion, the Company advances funds for the payment of items such as real estate taxes, legal bills, and MAI appraisals to protect collateral. Typically, advances are made on problem loans for which the Company is in negotiations with the borrower. To the extent that advances are not recoverable, they are written off as a realized loss upon the disposition of the mortgage loan. Taxes, assessments and other amounts advanced on behalf of a third party that were not included in the mortgage loan carrying value total were less than $1 million as of December 31, 2006 and 2005.

As of December 31, 2006, scheduled mortgage loan maturities, net of valuation allowances, were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial mortgage loans</td>
<td>8,422</td>
<td>605</td>
<td>713</td>
<td>876</td>
<td>1,063</td>
<td>4,796</td>
</tr>
<tr>
<td>Residential mortgage loan pools</td>
<td>2,655</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total mortgage loans</td>
<td>$11,077</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
During the years ended December 31, 2006 and 2005, mortgage loan lending rates, including fixed and variable, on new issues were:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
<td>Average</td>
</tr>
<tr>
<td>Commercial mortgage loans</td>
<td>5.3%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Residential mortgage loan pools</td>
<td>5.9%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Mezzanine mortgage loans</td>
<td>9.0%</td>
<td>18.0%</td>
</tr>
</tbody>
</table>

The maximum percentage of any one commercial mortgage loan to the estimated value of secured collateral at the time the loan was originated, exclusive of mezzanine, insured, guaranteed or purchase money mortgages, was 86.3% and 92.0% as of December 31, 2006 and 2005, respectively. The maximum percentage of any one mezzanine loan to the estimated value of secured collateral at the time the loan was originated was 98.6% and 98.0% as of December 31, 2006 and 2005, respectively.

The gain and loss activity of mortgage loans was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross realized investment gains</td>
<td>$26</td>
<td>$66</td>
</tr>
<tr>
<td>Gross realized investment losses</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Impairment losses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As of December 31, 2006 and 2005, the Company had no restructured loans. Restructured loans typically have been modified to defer a portion of the contracted interest payments to future periods. No interest was deferred to future periods for the years ended December 31, 2006 and 2005.

The geographic distribution of mortgage loans was as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>California</td>
<td>$1,977</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>702</td>
</tr>
<tr>
<td>Texas</td>
<td>665</td>
</tr>
<tr>
<td>New York</td>
<td>403</td>
</tr>
<tr>
<td>Illinois</td>
<td>393</td>
</tr>
<tr>
<td>Washington</td>
<td>361</td>
</tr>
<tr>
<td>All other states and countries</td>
<td>3,921</td>
</tr>
<tr>
<td>Total commercial mortgage loans</td>
<td>8,422</td>
</tr>
<tr>
<td>Residential mortgage loan pools</td>
<td>2,655</td>
</tr>
<tr>
<td>Total mortgage loans</td>
<td>$11,077</td>
</tr>
</tbody>
</table>

Geographical concentration is considered prior to the purchase of mortgage loans and residential mortgage loan pools and there is no material negative impact to surplus based on the geographical concentrations for the years ended December 31, 2006 and 2005.

The carrying value of real estate was as follows:

<table>
<thead>
<tr>
<th></th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Held for the production of income</td>
<td>$1,918</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(600)</td>
</tr>
<tr>
<td>Encumbrances</td>
<td>(291)</td>
</tr>
<tr>
<td>Held-for-sale</td>
<td>169</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(62)</td>
</tr>
<tr>
<td>Held-for-sale, net</td>
<td>107</td>
</tr>
<tr>
<td>Occupied by the Company</td>
<td>210</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(69)</td>
</tr>
<tr>
<td>Occupied by the Company, net</td>
<td>141</td>
</tr>
<tr>
<td>Total real estate</td>
<td>$1,275</td>
</tr>
</tbody>
</table>

The carrying value of non-income producing real estate, consisting primarily of land, was $17 million as of December 31, 2006 and 2005. One non-income producing real estate property with a carrying value of less than $1 million was under development as of December 31, 2006 and 2005.
Depreciation expense on real estate was $85 million and $93 million for the years ended December 31, 2006 and 2005, respectively.

The gain and loss activity of real estate investments was as follows:

<table>
<thead>
<tr>
<th></th>
<th>In Millions</th>
<th>Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>Gross realized capital gains on sales</td>
<td>$92</td>
<td>$158</td>
</tr>
<tr>
<td>Gross realized capital losses on sales</td>
<td>36</td>
<td>7</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>—</td>
<td>9</td>
</tr>
</tbody>
</table>

In 2005, the Company sold real estate with a fair value of $225 million into a real estate separate account offered to contract holders and recognized a gain of $117 million related to this sale.

The Company invests in real estate as part of its diversified investment strategy. Properties are acquired and managed for net income growth and increasing value. Properties acquired through foreclosure are managed similarly. If a property in the portfolio is underperforming or is not expected to outperform the market in the future, it is recommended for sale. Upon management’s approval for the sale of a property it is classified as held-for-sale. Properties acquired through foreclosure are automatically classified as held-for-sale.

As of December 31, 2005, the Company had 10 properties classified as held-for-sale, which included five offices, one of which was an office occupied by the Company, two retail centers, a hotel, a single-family residence, and land.

During 2005, the office occupied by the Company (“Old Office”) was classified as held-for-sale after management decided to relocate some of its operations. During 2006, transition of operations from the Old Office to a new office was completed and the Company realized a loss of $1 million on disposition of the Old Office.

Of the remaining nine properties classified as held-for-sale as of December 31, 2005, four offices were sold for a net gain of $7 million. Two properties, a hotel and single-family residence, were sold for a net gain of less than $1 million. A retail center was reclassified from held-for-sale to held for the production of income due to anticipated increases in occupancy. Two of the properties classified as held-for-sale as of December 31, 2005, a retail center and land, remained classified as held-for-sale as of December 31, 2006.

During 2006, 11 single-family residences were acquired as part of an employee relocation program and subsequently classified as held-for-sale. Of these properties, eight were sold during 2006 for a net loss of less than $1 million.

Also during 2006, three offices, a hotel, an apartment complex, a condo complex and an industrial building acquired in previous years were classified as held-for-sale. Of these seven properties, two were sold, the hotel and apartment, for a net gain of $43 million. As of December 31, 2006, the Company held 10 properties classified as held-for-sale.

Cornerstone Property Fund

In 2004, the Company transferred real estate with a fair value of $533 million into a real estate separate account, Cornerstone Property Fund, offered to contract holders. As of December 31, 2005, the Company had a deferred gain of $152 million related to this transfer.

In 2006, the assets and liabilities of the real estate separate account were transferred to two new partnerships, Cornerstone Holding LP and Cornerstone Patriot Non-REIT Holding LP (the “new partnerships”), which are included in partnerships and LLCs in the Consolidated Statement of Financial Position. At the time of the transfer, all risks and rewards of the real estate separate account were effectively transferred to the new partnerships. This non-cash transfer effectively transferred the Company’s investment in the real estate separate account into these partnership interests. At the time of the 2006 transfer, all of the deferred gains were offset against the market value of the properties thereby bringing the Company’s investment in the new partnerships back to the Company’s historical cost of $398 million. The Company did not record a gain or loss associated with this transfer. For the portion of the new partnerships owned by outside investors, the Company recorded a surrender of their group annuity contracts and an offsetting change in reserves to effect the movement of the outside investors’ interest from the separate account to the new partnerships.

Of the real estate investments transferred into the new partnerships, the Company retained legal title to five of the properties (the “specified properties”) with an approximate market value of $315 million. With regard to these specified properties, the Company and the new partnerships also entered into a Total Return and Property Use Contribution Agreement (“TRAPUA”). The TRAPUA conveyed full economic ownership of these properties to the new partnerships. The new partnerships are entitled to, and receive directly, all money and items flowing from the specified properties including the proceeds from sale of said properties. The new partnerships also pay all operating expenses, debt service and capital expenditures for the specified properties. The new partnerships indemnify the Company and any of its affiliates against, and agree to hold the Company harmless from any and all losses in connection with the specified properties. As the Company retained legal title to the specified properties, the Company remains primarily liable for obligations that may arise related to these specified properties in the event the new partnerships cannot meet their obligations under the TRAPUA. The Company records these specified properties at a nominal value as real estate. In substance, the book value of the specified properties has been moved from real estate to a partnership interest.
### e. Partnerships and Limited Liability Companies

The carrying value of partnerships and LLCs was $3,956 million and $2,752 million as of December 31, 2006 and 2005, respectively.

The gain and loss activity of partnerships and LLCs was as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Gross realized capital gains on sales</td>
<td>$86</td>
</tr>
<tr>
<td>Gross realized capital losses on sales</td>
<td>2</td>
</tr>
<tr>
<td>Impairment losses</td>
<td>10</td>
</tr>
</tbody>
</table>

The Company invests in partnerships which generate low income housing tax credits ("LIHTC"). As of December 31, 2006, the Company's investment in LIHTC investments was less than 1% of total invested assets. These investments currently have unexpired tax credits which range from two to 11 years and have an initial 15-year holding period requirement.

For determining impairments on LIHTC investments, the Company uses the present value of all future benefits, the majority of which are tax credits, discounted at a 6.0% risk free rate of return and compares the result to its current book value. Impairments for the year ended December 31, 2006, were $5 million, which consisted of MMA Financial LLC for $2 million and WFC Apartments LP, Countryside Corp Tax 3 and Alliant Tax Credit Fund for approximately $1 million each.

There were no write-downs or reclassifications made during the years ended December 31, 2006 and 2005 due to forfeiture or ineligibility of tax credits or similar issues. In addition, there are no LIHTC investments currently subject to regulatory review.

### f. Net Investment Income

Net investment income was derived from the following sources:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Bonds</td>
<td>$2,636</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>5</td>
</tr>
<tr>
<td>Common stocks – subsidiaries and affiliates</td>
<td>202</td>
</tr>
<tr>
<td>Common stocks – unaffiliated</td>
<td>69</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>691</td>
</tr>
<tr>
<td>Contract loans</td>
<td>569</td>
</tr>
<tr>
<td>Real estate</td>
<td>222</td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>307</td>
</tr>
<tr>
<td>Derivatives and other invested assets</td>
<td>185</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>119</td>
</tr>
<tr>
<td>Subtotal investment income</td>
<td>5,005</td>
</tr>
<tr>
<td>Amortization of IMR</td>
<td>(66)</td>
</tr>
<tr>
<td>Net gain from separate accounts</td>
<td>18</td>
</tr>
<tr>
<td>Less investment expenses</td>
<td>(484)</td>
</tr>
<tr>
<td>Net investment income (loss)</td>
<td>$4,473</td>
</tr>
</tbody>
</table>

### g. Net Realized Capital Gains and Losses

Net realized capital gains (losses) were comprised of the following:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Bonds</td>
<td>$(35)</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>18</td>
</tr>
<tr>
<td>Common stocks – subsidiaries and affiliates</td>
<td>12</td>
</tr>
<tr>
<td>Common stocks – unaffiliated</td>
<td>191</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>21</td>
</tr>
<tr>
<td>Real estate</td>
<td>56</td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>56</td>
</tr>
<tr>
<td>Derivatives and other</td>
<td>(106)</td>
</tr>
<tr>
<td>Federal and state taxes</td>
<td>(39)</td>
</tr>
<tr>
<td>Net realized capital gains (losses) before deferral to IMR</td>
<td>174</td>
</tr>
<tr>
<td>Net losses deferred to IMR</td>
<td>115</td>
</tr>
<tr>
<td>Less taxes</td>
<td>(40)</td>
</tr>
<tr>
<td>Net after-tax losses deferred to IMR</td>
<td>75</td>
</tr>
<tr>
<td>Net realized capital gains (losses)</td>
<td>$249</td>
</tr>
</tbody>
</table>

Net realized gains (losses) on derivative financial instruments by type were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$(109)</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>94</td>
</tr>
<tr>
<td>Asset, equity and credit default swaps</td>
<td>—</td>
</tr>
<tr>
<td>Options</td>
<td>(2)</td>
</tr>
<tr>
<td>Forward commitments</td>
<td>(5)</td>
</tr>
<tr>
<td>Financial futures</td>
<td>7</td>
</tr>
<tr>
<td>Net derivative realized capital gains (losses)</td>
<td>$ (15)</td>
</tr>
</tbody>
</table>

### h. Securities Lending

As of December 31, 2006 and 2005, securities with a fair value of $271 million and $745 million, respectively, were on loan. Collateral in the form of securities of $280 million and $768 million was held on the Company’s behalf, by a trustee, as of December 31, 2006 and 2005, respectively.

### i. Repurchase and Reverse Repurchase Agreements

As of December 31, 2006, the Company had no repurchase agreements outstanding. As of December 31, 2005, the Company had repurchase agreements outstanding with a total carrying value of $37 million. The outstanding amount as of December 31, 2005 was collateralized by bonds with a fair value of $37 million.

As of December 31, 2006 and 2005, the Company had reverse repurchase agreements outstanding with total carrying values of $1,183 million and $244 million, respectively. As of December 31, 2006, the maturities of these agreements ranged from January 4, 2007 through January 29, 2007 while the interest rates ranged from 4.5% to 5.6%. The outstanding amounts as of December 31, 2006 and 2005 were collateralized by bonds with a fair value of $1,182 million and $245 million, respectively.
5. Common Stocks – Subsidiaries and Affiliates

One of the Company’s wholly owned subsidiaries, MMHLLC, is the parent of subsidiaries which include retail and institutional asset management, registered broker dealers, and international life and annuity operations.

The Company does not rely on dividends from its subsidiaries to meet its operating cash flow requirements. Dividend payments from insurance subsidiaries are subject to certain restrictions imposed by statutory authorities.

For the domestic life insurance subsidiaries, substantially all of the statutory shareholder’s equity of approximately $503 million as of December 31, 2006 is subject to dividend restrictions. Dividend restrictions, imposed by various state regulations, limit the payment of dividends to the Company without the prior approval from the Department. MassMutual’s domestic insurance subsidiary, C.M. Life, is required to obtain prior approval for dividend payments in 2007.

International insurance subsidiaries include operations in Japan, Taiwan, Hong Kong, Europe and Bermuda. Historically, the Company has reinvested a substantial portion of its unrestricted earnings in these operations.

In 2006, the ownership of Golden Retirement Resources Inc. was transferred from MMHLLC to MassMutual. On September 15, 2006, Golden Retirement Resources Inc. was liquidated into MassMutual resulting in no gain or loss.

In 2006 and 2005, MassMutual contributed additional paid-in capital of $86 million and $517 million, respectively, to its subsidiaries including MMHLLC. During 2005, MassMutual contributed capital to MMHLLC to establish a new monoline financial guaranty insurance company, MML Assurance, Inc. (“MMLA”). MMLA had not issued any insurance policies or collected any premiums as of December 31, 2006. Additionally, it is expected that MMLA will surrender its insurance license to the New York State Insurance Department and be fully liquidated during the second quarter of 2007. During the first quarter of 2005, MMHLLC purchased Baring Asset Management, Ltd. During the fourth quarter of 2005, MMHLLC completed the sale of Antares Capital Corporation ("Antares") and as a result MMHLLC, with a portion of the proceeds of the sale, paid down debt owed to MassMutual.

MassMutual received dividends from MMHLLC of $175 million and $100 million in 2006 and 2005, respectively. The carrying value of MMHLLC was $1,955 million and $1,713 million as of December 31, 2006 and 2005, respectively. The Company held debt issued by MMHLLC and its subsidiaries that amounted to $1,023 million and $1,038 as of December 31, 2006 and 2005, respectively. The Company recorded interest income on MMHLLC debt of $66 million and $72 million in 2006 and 2005, respectively.

Summarized below is GAAP financial information for the consolidated subsidiaries:

<table>
<thead>
<tr>
<th></th>
<th>As of and for Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$6,364</td>
</tr>
<tr>
<td>Net income</td>
<td>456</td>
</tr>
<tr>
<td>Assets</td>
<td>34,907</td>
</tr>
<tr>
<td>Liabilities</td>
<td>31,857</td>
</tr>
</tbody>
</table>

6. Derivative Financial Instruments

The Company uses derivative financial instruments in the normal course of business to manage risks, primarily to reduce interest rate and duration imbalances determined in asset/liability analyses. The Company also uses a combination of derivatives and fixed income investments to create synthetic investment positions. These combined investments are created opportunistically when they are economically more attractive than the replicated instrument or when the replicated instruments are unavailable. To a much lesser extent, some, approximately $116 million in replicated asset statement value, of these combinations are considered replication (synthetic asset) transactions as permitted under statutory accounting principles. The Company’s derivative strategy employs a variety of derivative financial instruments, including interest rate swaps, currency swaps, equity and credit default swaps, options, interest rate caps and floors, forward commitments, and financial futures. Investment risk is assessed on a portfolio basis and individual derivative financial instruments are not designated in hedging relationships; therefore, as allowed by accounting rules, the Company specifically and intentionally made the decision not to apply hedge accounting.

Under interest rate swaps, the Company agrees, at specified intervals, to an exchange of variable rate and fixed rate interest payments calculated by reference to an agreed upon notional principal amount. Typically, no cash is exchanged at the outset of the contract and no principal payments are made by either party. Cash is paid or received based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date. Interest rate swaps are primarily utilized to more closely match the interest rate characteristics of assets and liabilities arising from timing mismatches between assets and liabilities (including duration mismatches). Interest rate swaps are also used to mitigate changes in the value of assets anticipated to be purchased and other anticipated transactions and commitments.

Under currency swaps, the Company agrees to an exchange of principal denominated in two different currencies at current rates, under an agreement to repay the principal at a specified future date and rate. The Company utilizes currency swaps for the purpose of managing currency exchange risks in its assets and its liabilities.

Credit default swaps involve a transfer of credit risk of fixed income instruments from one party to another in exchange for periodic premium payments. The buyer of the credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the underlying security. This transfers the risk
of default from the buyer of the swap to the seller. If a specified credit event occurs, as defined by the agreement, the seller is obligated to pay the counterparty the contractually agreed upon amount and receive in return the underlying security in an amount equal to the notional value of the credit default swap. A credit event is generally defined as default on contractually obligated interest or principal payments or bankruptcy.

The Company uses credit default swaps to either reduce exposure to particular issuers by buying protection or increase exposure to issuers by selling protection against specified credit events. The Company buys protection as an efficient means to reduce credit exposure to particular issuers or sectors in the Company’s investment portfolio. The Company sells protection to enhance the return on its investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market or to enter into synthetic transactions by buying a high-quality liquid bond to match against the credit default swap.

Options grant the purchaser the right to buy or sell a security or enter into a derivative transaction at a stated price within a stated period. The Company’s option contracts have terms of up to 15 years. A swaption is an option to enter into an interest rate swap at a future date. The Company purchases these options and pays a premium in order to transform its callable liabilities into fixed term liabilities.

Interest rate cap agreements are option contracts in which the seller agrees to limit the purchaser’s risk associated with an increase in a reference rate or index in return for a premium. Interest rate floor agreements are option contracts in which the seller agrees to limit the purchaser’s risk associated with a decline in a reference rate or index in return for a premium. The Company is exposed to policyholder surrenders during a rising interest rate environment. Interest rate cap and swaption contracts are used to mitigate the Company’s loss in this environment. The increase in yield from the cap and swaption contracts in a rising interest rate environment may be used to raise credited rates, thereby increasing the Company’s competitiveness and reducing the policyholder’s incentive to surrender. These derivatives are also used to reduce the duration risk in certain investment portfolios. These derivative instruments are structured to mitigate the duration of fixed maturity investments to match certain life insurance products in accordance with the Company’s asset and liability management policy.

The Company utilizes certain other agreements including forward commitments and financial futures to reduce exposures to various risks. Forward commitments and financial futures are used by the Company to manage market risks relating to interest rates. Currency forwards are contracts in which the Company agrees with other parties to exchange specified amounts of identified currencies at a specified future date. Typically, the exchange is agreed upon at the time of the contract. The Company also uses “to be announced” (“TBA”) forward contracts to participate in the investment return on mortgage-backed securities. The Company believes that TBAs can provide a more liquid and cost effective method than purchasing or selling individual mortgage-backed pools. Typically, the price is agreed upon at the time of the contract and payment is made at a specified future date. The Company usually does not purchase TBAs with settlement by the first possible delivery date and thus accounts for these TBAs as derivatives. TBAs which settle on the first possible delivery date are accounted for as bonds. The Company’s futures contracts are exchange traded and have credit risk. Margin requirements are met with the deposit of securities. Futures contracts are generally settled with offsetting transactions.

The Company’s principal derivative market risk exposures are interest rate risk, which includes the impact of inflation, and credit risk. Interest rate risk pertains to the change in fair value of the derivative instruments as market interest rates move. The Company is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to minimize credit risk, the Company and its derivative counterparties require collateral to be posted in the amount owed under each transaction, subject to threshold and minimum transfer amounts that are functions of the rating on the counterparty’s long term, unsecured, unsubordinated debt. Additionally, in many instances, the Company enters into agreements with counterparties which allow for contracts in a positive position, where the Company is due amounts, to be offset by contracts in a negative position. This right of offset, combined with collateral obtained from counterparties, reduces the Company’s exposure. As of December 31, 2006 and 2005, the Company held collateral of $887 million and $1,113 million, respectively. Market value exposure at risk, in a net gain position, net of offsets and collateral, was $182 million and $195 million as of December 31, 2006 and 2005, respectively. Negative values in the carrying value of a particular derivative category can result due to a counterparty’s right to offset positions in multiple derivative financial instruments. The Company regularly monitors counterparty credit ratings and exposures, derivatives positions and valuations, and the value of collateral posted to ensure counterparties are credit-worthy and the concentration of exposure is minimized. The Company monitors this exposure as part of its management of the Company’s overall credit exposures.

The following tables summarize the carrying values and notional amounts of the Company’s derivative financial instruments:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Notional Amount</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$606</td>
<td>$28,707</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>177</td>
<td>1,392</td>
</tr>
<tr>
<td>Asset, equity and credit default swaps</td>
<td>(5)</td>
<td>783</td>
</tr>
<tr>
<td>Options</td>
<td>251</td>
<td>7,857</td>
</tr>
<tr>
<td>Interest rate caps and floors</td>
<td>—</td>
<td>10</td>
</tr>
<tr>
<td>Forward commitments</td>
<td>(14)</td>
<td>1,179</td>
</tr>
<tr>
<td>Financial futures – long positions</td>
<td>—</td>
<td>428</td>
</tr>
<tr>
<td>Total</td>
<td>$1,015</td>
<td>$40,356</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td>Carrying Amount</td>
<td>Notional Amount</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$775</td>
<td>$30,841</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>283</td>
<td>1,295</td>
</tr>
<tr>
<td>Asset, equity and credit default swaps</td>
<td>(2)</td>
<td>566</td>
</tr>
<tr>
<td>Options</td>
<td>258</td>
<td>10,023</td>
</tr>
<tr>
<td>Interest rate caps and floors</td>
<td>—</td>
<td>1,059</td>
</tr>
<tr>
<td>Forward commitments</td>
<td>11</td>
<td>1,672</td>
</tr>
<tr>
<td>Financial futures – short positions</td>
<td>—</td>
<td>530</td>
</tr>
<tr>
<td>Total</td>
<td>$1,325</td>
<td>$45,986</td>
</tr>
</tbody>
</table>
Notes to Consolidated Statutory Financial Statements (continued)

Notional amounts do not represent amounts exchanged by the parties and thus are not a measure of the Company’s exposure. The amounts exchanged are calculated on the basis of the notional amounts and the other terms of the instruments, which relate to interest rates, exchange rates, security prices, or financial and other indices.

The following table summarizes the Company’s notional amounts by contractual maturity and type of derivative:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, Remaining Life of Notional Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>One Year</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$6,476</td>
</tr>
<tr>
<td>Options</td>
<td>--</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>131</td>
</tr>
<tr>
<td>Other derivatives</td>
<td>1,882</td>
</tr>
<tr>
<td>Total</td>
<td>$8,489</td>
</tr>
</tbody>
</table>

The following table represents the Company’s net notional interest rate swap positions:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Open interest rate swaps in a fixed receive position</td>
<td>$14,923</td>
</tr>
<tr>
<td>Open interest rate swaps in a fixed pay position</td>
<td>10,880</td>
</tr>
<tr>
<td>Other interest related swaps</td>
<td>1,882</td>
</tr>
<tr>
<td>Total interest rate swaps</td>
<td>$31,025</td>
</tr>
</tbody>
</table>

7. Amounts on Deposit with Government Authorities
The Company had assets in the amount of $34 million as of December 31, 2006 and 2005, which were on deposit with government authorities or trustees as required by law.

8. Fair Value of Financial Instruments
The following fair value disclosures may not necessarily be indicative of amounts that could be realized in immediate settlement of the financial instrument. The use of different assumptions or valuation methodologies may have a material impact on the estimated fair value amounts.

The following table summarizes the Company’s financial instruments:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Financial assets:</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>$43,976</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>270</td>
</tr>
<tr>
<td>Common stocks – unaffiliated</td>
<td>1,204</td>
</tr>
<tr>
<td>Mortgage loans on real estate</td>
<td>11,077</td>
</tr>
<tr>
<td>Contract loans</td>
<td>8,032</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>1,015</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>1,015</td>
</tr>
<tr>
<td>Financial liabilities:</td>
<td></td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>$71</td>
</tr>
<tr>
<td>Funding agreements</td>
<td>2,280</td>
</tr>
<tr>
<td>Investment-type insurance contracts</td>
<td>14,245</td>
</tr>
</tbody>
</table>

As of December 31, 2006 and 2005, approximately 76% and 71%, respectively, of bond securities were priced by external vendors and broker quotations. Internal models were used to price approximately 24% and 29% of bond securities as of December 31, 2006 and 2005, respectively.

The average fair value of derivative financial instrument assets was $1,170 million and $1,424 million during 2006 and 2005, respectively. The average fair value of derivative financial instrument liabilities was $86 million and $92 million during 2006 and 2005, respectively.

9. Fixed Assets
The Company’s fixed assets are comprised primarily of internally developed and purchased software, operating software, electronic data processing equipment, office equipment and furniture. Fixed assets were $169 million and $141 million, net of accumulated depreciation of $349 million and $317 million, as of December 31, 2006 and 2005, respectively. Depreciation expense on fixed assets was $50 million and $55 million for the years ended December 31, 2006 and 2005, respectively.

10. Deferred and Uncollected Life Insurance Premiums
Deferred and uncollected life insurance premiums are included in other than invested assets in the Company’s Consolidated Statutory Statements of Financial Position. The table below summarizes these deferred and uncollected life insurance premiums, gross and net of loading.

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross</td>
</tr>
<tr>
<td>Ordinary new business</td>
<td>$49</td>
</tr>
<tr>
<td>Ordinary renewal</td>
<td>467</td>
</tr>
<tr>
<td>Group life</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>$534</td>
</tr>
</tbody>
</table>
11. Surplus Notes
The following table summarizes the surplus notes issued and outstanding as of December 31, 2006 ($ in Millions):

<table>
<thead>
<tr>
<th>Issue Year</th>
<th>Amount</th>
<th>Interest Rate</th>
<th>Maturity Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>$250</td>
<td>7.625%</td>
<td>2023</td>
</tr>
<tr>
<td>1994</td>
<td>100</td>
<td>7.500%</td>
<td>2024</td>
</tr>
<tr>
<td>2003</td>
<td>250</td>
<td>5.625%</td>
<td>2033</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$600</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These notes are unsecured and subordinate to all present and future indebtedness of the Company, policy claims and prior claims against the Company as provided by the Massachusetts General Laws. The surplus notes are all held by bank custodians for unaffiliated investors. All issuances were approved by the Commonwealth of Massachusetts Division of Insurance (the “Division”). Surplus notes are included in surplus.

All payments of interest and principal are subject to the prior approval of the Division. Anticipated sinking fund payments are due for the notes issued in 1993 and 1994 as follows: $62 million in 2021, $88 million in 2022, $150 million in 2023, and $50 million in 2024. There are no sinking fund requirements for the notes issued in 2003. Scheduled interest on the notes issued in 2003 and 1993 is payable on May 15 and November 15 of each year to holders of record on the preceding May 1 or November 1, respectively. Scheduled interest on the notes issued in 1994 is payable on March 1 and September 1 of each year to holders of record on the preceding February 15 or August 15, respectively. Interest expense is not recorded until approval for payment is received from the Division. Through December 31, 2006, the unapproved interest was $7 million. Interest of $41 million was approved and paid during each of the years ended December 31, 2006 and 2005.

12. Related Party Transactions
The Company has management and service contracts and cost-sharing arrangements with various subsidiaries and affiliates whereby the Company, for a fee, will furnish a subsidiary or affiliate, as required, operating facilities, human resources, computer software development and managerial services. Fees earned under the terms of these contracts and arrangements related to unconsolidated subsidiaries and affiliates were $68 million and $55 million for 2006 and 2005, respectively. As of December 31, 2006 and 2005, the net amounts due from these subsidiaries and affiliates were $14 million and $33 million, respectively. These outstanding balances are due and payable within 30 days of billing.

The Company has agreements with its affiliates, including OppenheimerFunds, Inc., whereby the Company receives revenue for certain recordkeeping and other services that the Company provides to customers who select, as investment options, mutual funds managed by these affiliates. For the years ended December 31, 2006 and 2005, revenue of $24 million and $18 million, respectively, was recorded by the Company under these agreements. As of December 31, 2006 and 2005, the net amounts due from these affiliates were $3 million and $5 million, respectively. These outstanding balances are due and payable within 90 days.

Various unconsolidated subsidiaries and affiliates, including Babson Capital Management LLC (“Babson Capital”), provide investment advisory services to the Company. Fees incurred for such services were $166 million and $160 million for 2006 and 2005, respectively. In addition, an unconsolidated subsidiary provides administrative services for employee benefit plans to the Company. Total fees for such services were $11 million in 2006 and 2005. As of December 31, 2006 and 2005, the net amounts due to these subsidiaries and affiliates were $48 million and $49 million, respectively. These outstanding balances are due and payable within 30 days of billing.

In 2005 and 2003, the Company entered into modified coinsurance agreements with its unconsolidated Japanese affiliate, MassMutual Life Insurance Company, on certain life insurance products. Under these Modco agreements, the Company is the reinsurer and the Japanese affiliate retains the reserve and associated assets on traditional, individual life insurance policies. The predominant contract types are whole life, endowments and term insurance. Modco, a form of coinsurance, is used to allow the Japanese affiliate to keep control of the investment and management of the assets supporting the reserves. The modified coinsurance adjustment is the mechanism by which the Company funds the reserve on the reinsured portion of the risk. It is needed to adjust for the financial effect of the Japanese affiliate holding the reserves on the ceded coverage rather than the Company. Fees and other income included modified coinsurance adjustments of $25 million and $32 million that were recorded by the Company in 2006 and 2005, respectively. Total premium assumed by the Company under these agreements was $63 million and $67 million in 2006 and 2005, respectively. Fees and other income also included $6 million and $36 million of expense allowances on reinsurance assumed in 2006 and 2005, respectively. Total policyholders’ benefits assumed were $22 million and $20 million in 2006 and 2005, respectively. As of December 31, 2006 and 2005, the net amounts due from the Japanese affiliate were $4 million and $2 million, respectively. These outstanding balances are due and payable within 90 days.

The Company had outstanding amounts due to Babson Capital of $25 million at 4.3% and $25 million at 4.0%, and to Cornerstone Real Estate Advisers, LLC of $5 million at 4.3% and $5 million at 4.0% as of December 31, 2006 and 2005, respectively. The amounts are due in 2008 and 2007, respectively, but early repayment may be made at the option of the Company. Both are payable semi-annually in arrears. Interest accrued and paid was $1 million for the years ended December 31, 2006 and 2005.

13. Reinsurance
The Company cedes insurance to unaffiliated insurers in order to limit its insurance risk. The Company’s initial retention limit per individual life insured is generally $15 million. The Company reinsures a portion of its life business under either a first dollar quota share arrangement or in excess of the retention limit. The Company also reinsures all of its long-term care business and a portion of its disability business. The amounts reinsured are on a yearly renewable term or coinsurance basis. Such transfers do not relieve the Company of its primary liability and, as such, failure of reinsurers to honor their obligations could result in losses. The Company...
reduces this risk by evaluating the financial condition of reinsurers and monitoring for possible concentrations of credit risk. The Company records a receivable for reinsured benefits paid and reduces policyholders’ reserves for the portion of insurance liabilities that are reinsured. The cost of reinsurance is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

The Company and its officers and directors do not own any portion of a reinsurer nor were any policies issued by the Company reinsured with a company chartered in a country other than the United States and which is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or any other person not primarily engaged in the insurance business. There are no reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts which, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies.

If all reinsurance agreements were terminated by either party as of the date of this statement, the resulting reduction in surplus due to loss of reinsurance reserve credits net of unearned premium would be approximately $1.382 billion assuming no return of the assets backing these reserves from the reinsurer to the Company upon termination of these agreements.

Premium ceded was $573 million and $517 million and reinsurance recoveries were $318 million and $295 million for the years ended December 31, 2006 and 2005, respectively. Amounts recoverable from reinsurers were $119 million and $111 million as of December 31, 2006 and 2005, respectively. As of December 31, 2006, one reinsurer accounted for 33% of the outstanding reinsurance recoverable and the next largest reinsurer had 15% of the balance.

Reserves ceded were $1.603 billion and $1.336 billion as of December 31, 2006 and 2005, respectively. Of these reserves, the amounts associated with life insurance policies for mortality and other related risks totaled $1.279 billion and $1.069 billion as of December 31, 2006 and 2005, respectively. The remaining balance relates to long-term care and disability policies.

The Company also writes group health business through UniCARE Life and Health Insurance Company (“UniCARE”), a third-party administrator. Pursuant to a 1994 reinsurance agreement, the Company cedes 100% of this business to UniCARE. Premium ceded was less than $1 million for the years ended December 31, 2006 and 2005.

14. Policyholders’ Liabilities

a. Policyholders’ Reserves

The following table summarizes policyholders’ reserves, net of reinsurance, and the range of interest rates by type of product:

<table>
<thead>
<tr>
<th>$ In Millions</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Interest Rates</td>
</tr>
<tr>
<td>Individual life</td>
<td>$29,946</td>
<td>2.5%– 6.0%</td>
</tr>
<tr>
<td>Group life</td>
<td>8,937</td>
<td>2.5%– 4.5%</td>
</tr>
<tr>
<td>Group annuities</td>
<td>8,893</td>
<td>2.3%–11.3%</td>
</tr>
<tr>
<td>Individual annuities</td>
<td>6,592</td>
<td>2.3%–11.3%</td>
</tr>
<tr>
<td>Individual universal and variable life</td>
<td>3,416</td>
<td>2.5%– 6.0%</td>
</tr>
<tr>
<td>Disabled life claim reserves</td>
<td>1,703</td>
<td>3.5%– 6.0%</td>
</tr>
<tr>
<td>Guaranteed investment contracts</td>
<td>586</td>
<td>2.5%–13.0%</td>
</tr>
<tr>
<td>Disability active life reserves</td>
<td>559</td>
<td>3.5%– 6.0%</td>
</tr>
<tr>
<td>Other</td>
<td>155</td>
<td>2.5%– 4.5%</td>
</tr>
<tr>
<td>Total</td>
<td>$58,887</td>
<td></td>
</tr>
</tbody>
</table>
Guaranteed investment contracts (“GICs”) are pension plan investment contracts that pay a specified non-participating interest rate on contributions and pay book value at a specified maturity date. In 2006, the Company exited this market and ceased issuing new contracts.

As of December 31, 2006, GIC reserves totaled $586 million, which included $137 million in contracts that can be surrendered with a market-value adjustment.

As of December 31, 2006, the Company’s GIC reserves by maturity year were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$125</td>
</tr>
<tr>
<td>2008</td>
<td>131</td>
</tr>
<tr>
<td>2009</td>
<td>288</td>
</tr>
<tr>
<td>2010</td>
<td>8</td>
</tr>
<tr>
<td>2011</td>
<td>34</td>
</tr>
<tr>
<td>Total</td>
<td>$586</td>
</tr>
</tbody>
</table>

b. Liabilities for Deposit-type Contracts
The following table summarizes liabilities for deposit-type contracts and the range of interest rates by type of product:

<table>
<thead>
<tr>
<th>$ in Millions</th>
<th>Amount</th>
<th>Interest Rates</th>
<th>Amount</th>
<th>Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding agreements</td>
<td>$2,280</td>
<td>2.6%–10.2%</td>
<td>$2,971</td>
<td>2.6%–10.2%</td>
</tr>
<tr>
<td>Dividend accumulations</td>
<td>607</td>
<td>4.3%–4.7%</td>
<td>604</td>
<td>4.3%–4.6%</td>
</tr>
<tr>
<td>Supplementary contracts</td>
<td>592</td>
<td>0.3%–8.0%</td>
<td>656</td>
<td>0.3%–8.0%</td>
</tr>
<tr>
<td>Other</td>
<td>120</td>
<td>4.0%–8.0%</td>
<td>140</td>
<td>4.0%–8.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,599</strong></td>
<td><strong>$3,599</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Structurally similar to GICs, funding agreements are investment contracts sold to domestic and international institutional investors. The terms of the funding agreements do not give the holder the right to terminate the contract prior to the contractually stated maturity date. No funding agreements in these programs have been issued with put provisions or ratings sensitive triggers. Currency swaps are employed to eliminate foreign exchange risk from all funding agreements issued to back non-U.S. dollar denominated notes. During 2006, a foreign-denominated medium-term note contract matured and resulted in a foreign currency loss of $102 million recorded in other realized capital losses. This loss was offset by a gain on currency swaps. Assets received for funding agreements may be invested in the Company’s general investment account (“GIA”) or in a separate investment account. As of December 31, 2006, GIA funding agreement balances totaled $2,280 million, consisting of $2,227 million in note programs and $53 million in various other agreements.

As of December 31, 2006, the Company had cumulatively issued $4,254 million of funding agreements under these programs and $2,491 million at par remained outstanding.

As of December 31, 2006, the Company’s GIA funding agreement balances by maturity year were as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 520</td>
</tr>
<tr>
<td>2008</td>
<td>306</td>
</tr>
<tr>
<td>2009</td>
<td>464</td>
</tr>
<tr>
<td>2010</td>
<td>205</td>
</tr>
<tr>
<td>2011</td>
<td>4</td>
</tr>
<tr>
<td>Thereafter</td>
<td>781</td>
</tr>
<tr>
<td>Total</td>
<td>$2,280</td>
</tr>
</tbody>
</table>

c. Unpaid Claims and Claim Expense Reserves
The Company establishes unpaid claims and claim expense reserves to provide for the estimated costs of paying claims made under individual disability and long-term care policies written by the Company. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported, and include estimates of all future expenses to be associated with the processing and settling of these claims. This estimation process is based significantly on the assumption that past experience is an appropriate indicator of future events, and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. The amounts recorded for unpaid claim and claim expense reserves represent the Company’s best estimate based upon currently known facts and actuarial guidelines. Accordingly, actual claim payouts may vary from present estimates.
Notes to Consolidated Statutory Financial Statements (continued)

The following table summarizes the disabled life unpaid claims and claim expense reserves:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claim reserves, beginning of year</td>
<td>$1,792</td>
<td>$1,722</td>
</tr>
<tr>
<td>Less reinsurance recoverables</td>
<td>(88)</td>
<td>(98)</td>
</tr>
<tr>
<td>Net claim reserves, beginning of year</td>
<td>1,704</td>
<td>1,624</td>
</tr>
<tr>
<td>Claims paid related to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year</td>
<td>(21)</td>
<td>(15)</td>
</tr>
<tr>
<td>Prior years</td>
<td>(265)</td>
<td>(242)</td>
</tr>
<tr>
<td>Total claims paid</td>
<td>(286)</td>
<td>(257)</td>
</tr>
<tr>
<td>Incurred related to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current year’s incurred</td>
<td>212</td>
<td>197</td>
</tr>
<tr>
<td>Current year’s interest</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Prior years’ incurred</td>
<td>14</td>
<td>59</td>
</tr>
<tr>
<td>Prior years’ interest</td>
<td>79</td>
<td>76</td>
</tr>
<tr>
<td>Total incurred</td>
<td>310</td>
<td>337</td>
</tr>
<tr>
<td>Net claim reserves, end of year</td>
<td>1,728</td>
<td>1,704</td>
</tr>
<tr>
<td>Plus reinsurance recoverables</td>
<td>107</td>
<td>88</td>
</tr>
<tr>
<td>Claim reserves, end of year</td>
<td>$1,835</td>
<td>$1,792</td>
</tr>
</tbody>
</table>

The changes in reserves for incurred claims related to prior years are generally the result of ongoing analysis of recent loss-development trends. The prior years’ incurred claims in 2006 included a $4 million decrease related to prior year corrections. In 2005, the prior years’ incurred claims included an $8 million increase related to prior year corrections. The prior year corrections were recorded as a component of changes in surplus; in 2006, they were classified as other prior period adjustments and, in 2005, they were classified as prior period disability reserve adjustments.

The following table reconciles disabled life claim reserves to the net claim reserves at the end of the years presented in the previous table. Disabled life claim reserves are recorded in policyholders’ reserves. Accrued claim liabilities are recorded in other liabilities.

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disabled life claim reserves</td>
<td>$1,703</td>
<td>$1,660</td>
</tr>
<tr>
<td>Accrued claim liabilities</td>
<td>25</td>
<td>44</td>
</tr>
<tr>
<td>Net claim reserves, end of year</td>
<td>$1,728</td>
<td>$1,704</td>
</tr>
</tbody>
</table>

d. Secondary Guarantees

The following table shows the liabilities for guaranteed minimum death, accumulation and income benefits on annuity and variable universal life contracts:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Annuity</th>
<th>Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2006</td>
<td>GMDB</td>
<td>GMAB</td>
</tr>
<tr>
<td>December 31, 2005</td>
<td>8</td>
<td>4</td>
</tr>
</tbody>
</table>

The following table summarizes the account values, net amount at risk and weighted average attained age for annuity contracts with guaranteed minimum death, accumulation and income benefits classified as policyholders’ reserves and separate investment account liabilities. The net amount at risk is defined as the minimum guarantee less the account value calculated on a policy-by-policy basis, but not less than zero.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2006</th>
<th>December 31, 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ in Millions</td>
<td>Account Value</td>
<td>Net Amount at Risk</td>
</tr>
<tr>
<td>GMDB</td>
<td>$10,513</td>
<td>$134</td>
</tr>
<tr>
<td>GMAB</td>
<td>754</td>
<td>N/A</td>
</tr>
<tr>
<td>GMIB</td>
<td>1,519</td>
<td>1</td>
</tr>
</tbody>
</table>

Account balances of annuity contracts with GMDB guarantees invested in separate investment accounts were $9,251 million and $8,419 million as of December 31, 2006 and 2005, respectively. In addition to the amount invested in separate investment account options, $1,262 million and $1,522 million of account balances of annuity contracts with GMDB guarantees were invested in general investment account options as of December 31, 2006 and 2005, respectively.

The Company sells universal life and variable universal life type contracts, a portion of which offer secondary guarantees, such as a guarantee that the policy will not lapse, even if the account value is reduced to zero, as long as the policyholder makes scheduled premium payments. As of December 31, 2006 and 2005, the net liability for contracts with secondary guarantees on universal life and variable universal life type contracts including GMDB reserves was $931 million and $650 million, respectively.

The determination of GMDB, GMAB, and GMIB reserves is based on actuarial guidelines. Reserve assumptions for GMDB benefits generally anticipate payout between ages 60 and 90. GMAB benefits will be paid either 10 or 20 years from their election, depending on the terms of the benefit. GMIB benefits are generally expected to be initiated between ages 60 and 80; the Company does not expect significant elections after age 80 as the benefit accumulation ceases at that time.

15. Employee Benefit Plans

The Company provides multiple benefit plans including retirement plans and life and health benefits to employees, certain employees of unconsolidated subsidiaries, agents and retirees.

a. Pension and Savings Plans

The Company has funded and unfunded non-contributory defined benefit pension plans. The plans cover substantially all employees and agents. For some participants, benefits are calculated as the greater of a formula based on either final average earnings and length of service or a cash balance formula which calculates benefits based on amounts allocated to participants that take into consideration age, service and salary during their careers.
The Company’s policy is to fund qualified pension costs in accordance with the Employee Retirement Income Security Act of 1974. The Company contributed $90 million and $70 million to its qualified defined benefit plan for the years ended December 31, 2006 and 2005, respectively.

The Company sponsors funded (qualified 401k thrift savings) and unfunded (non-qualified deferred compensation thrift savings) defined contribution plans for substantially all of its employees and agents. The Company contributes to the funded plan by matching participant contributions up to 3% of pay, within certain limits, based on years of service and the financial results of the Company each year. Company contributions, and any related earnings, are vested based on years of service using a graduated vesting schedule with full vesting after three years of service.

The matching thrift contributions by the Company were $18 million and $20 million for the years ended December 31, 2006 and 2005, respectively, and were included in general insurance expenses.

The Company also maintains a money purchase pension plan for agents, which was frozen in 2001.

The fair value of the funded pension plan assets was $1,364 million and $1,228 million, as of a measurement date of September 30, 2006 and 2005, respectively.

The Company’s employees and agents are eligible to receive post-employment benefits for home office employees. As discussed in note 2b, Corrections of Errors and Reclassifications, the Company accrued post-employment benefits for home office employees’ severance plans in the fourth quarter of 2006. The net accumulated liability recorded for these benefits as of December 31, 2006 was $23 million, of which $22 million was related to prior years.

The health care plan is contributory; a portion of the basic life insurance plan is non-contributory. Substantially all of the Company’s employees and agents may become eligible to receive other post-retirement benefits. These benefits are funded as considered necessary by the Company’s management. The post-retirement health care plans include a limit on the Company’s share of costs for recent and future retirees.

The initial transition obligation of $138 million is being amortized over 20 years through 2012. The initial transition obligation represents the phased recognition on the income statement of the differences between the plan’s funded status and the accrued or prepaid cost on a company’s balance sheet when the company first transitioned to SSAP 14. As of December 31, 2006 and 2005, the net unfunded projected benefit obligation was $265 million and $278 million, respectively, for employees and agents that are eligible to retire or are currently retired, and has been allocated to MMBMI.

Projected benefit obligations for other post-retirement benefits represent the present value of post-retirement medical and life insurance benefits deemed earned as of December 31, 2006 projected for estimated salary and medical claim rate increases to an assumed date with respect to retirement, termination, disability, or death. As illustrated in note 15c, the projected benefit obligation for post-retirement plans as of December 31, 2006 and 2005 was $274 million and $288 million, respectively. The change in projected benefit obligation is detailed in section c, Benefit Obligations.

The Company provides post-employment benefits for home office employees. As discussed in note 2b, Corrections of Errors and Reclassifications, the Company accrued post-employment benefits for home office employees’ severance plans in the fourth quarter of 2006. The net accumulated liability recorded for these benefits as of December 31, 2006 was $23 million, of which $22 million was related to prior years.

The Company also provides post-employment benefits for agents. The Company accrues post-employment benefits for agents that qualify for long-term disability. The net accumulated liability for these benefits was $10 million as of December 31, 2006 and 2005.

The fair value of funded plan assets for the Company’s other post-retirement benefit plans was $9 million and $10 million, as of a measurement date of September 30, 2006 and 2005, respectively.
c. Benefit Obligations

Accumulated benefit obligations represent the present value of pension benefits earned as of December 31, 2006 based on service and compensation as of December 31, 2006 and do not take into consideration future salary increases. The vested accumulated benefit obligation for defined benefit plans as of December 31, 2006 and 2005 was $1,320 million and $1,277 million, respectively.

Projected benefit obligations for defined benefit plans represent the present value of pension benefits earned as of December 31, 2006 projected for estimated salary increases to an assumed date with respect to retirement, termination, disability or death. The vested projected benefit obligation for defined benefit plans as of December 31, 2006 and 2005 was $1,404 million and $1,383 million, respectively.

The following table sets forth the change in the projected benefit obligation of the defined benefit pension and other post-retirement plans for vested employees as of December 31, 2006 and 2005, using a September 30, 2006 and 2005 measurement date, adjusted for fourth-quarter activity:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Pension Benefits</th>
<th>Other Post-retirement Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>Change in projected benefit obligation:</td>
<td>1,404</td>
<td>$1,383</td>
</tr>
<tr>
<td>Projected benefit obligation, beginning of year</td>
<td>$1,383</td>
<td>$1,197</td>
</tr>
<tr>
<td>Service cost</td>
<td>44</td>
<td>39</td>
</tr>
<tr>
<td>Interest cost</td>
<td>74</td>
<td>70</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>35</td>
<td>54</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(85)</td>
<td>(64)</td>
</tr>
<tr>
<td>Contributions by plan participants</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Plan amendments</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Change in actuarial assumptions</td>
<td>(47)</td>
<td>87</td>
</tr>
<tr>
<td>Projected benefit obligation, end of year</td>
<td>$1,404</td>
<td>$1,383</td>
</tr>
</tbody>
</table>

Actuarial (gains) losses represent the difference between the expected results and the actual results used to determine the projected benefit obligation and current-year expense. A few of the major assumptions used include: expected return on assets, expected future compensation levels, healthcare cost trend, mortality and expected retirement age.

The change in actuarial assumptions is primarily due to the change in the discount rate. The discount rates used to value the benefit obligation for the years 2006 and 2005 were 5.75% and 5.50%, respectively. The annual change in the discount rate is directly correlated to the change in the Moody’s Aa Corporate Bond rate as of the measurement date of September 30, 2006. Each 25 basis point change in the discount rate results in an approximate $47 million change in the pension benefit obligation.

d. Plan Assets

The change in plan assets represents a reconciliation of beginning and ending balances of the fair value of the plan assets used to fund future benefit payments. The following table sets forth the change in plan assets as of a September 30, 2006 and 2005 measurement date:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Pension Benefits</th>
<th>Other Post-retirement Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>Change in plan assets:</td>
<td>1,364</td>
<td>$1,228</td>
</tr>
<tr>
<td>Fair value of plan assets, beginning of year</td>
<td>$1,228</td>
<td>$1,071</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>113</td>
<td>137</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>108</td>
<td>84</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(85)</td>
<td>(64)</td>
</tr>
<tr>
<td>Contributions by plan participants</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Fair value of plan assets, end of year</td>
<td>$1,364</td>
<td>$1,228</td>
</tr>
</tbody>
</table>

The Company’s pension plan weighted-average asset allocations by asset category are as follows:

<table>
<thead>
<tr>
<th>Plan Assets at September 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Category</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Domestic equity</td>
</tr>
<tr>
<td>International equity</td>
</tr>
<tr>
<td>Domestic fixed-income</td>
</tr>
<tr>
<td>Alternative investments</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

As of December 31, 2006 and 2005, the fair value of the pension plan assets of $1,424 million and $1,238 million, respectively, were invested in group annuity contracts, which invest in the Company’s general and separate accounts. As of September 30, 2006 and 2005, the fair value of the pension plan assets were $1,364 million and $1,228 million, respectively.

The Company employs a total return investment approach whereby a mix of equities, fixed-income investments and securities lending are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income invest-
ments. Furthermore, equity investments are diversified across United States ("U.S.") and non-U.S. stocks, as well as growth, value, and small and large capitalization mutual funds. Alternative assets such as real estate, private equity and hedge funds are used to improve portfolio diversification. Currently, approximately 67% of alternative assets are invested in public equity funds. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

Related party assets included in plan assets are as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small cap core (OFI)</td>
</tr>
<tr>
<td>Capital appreciation</td>
</tr>
<tr>
<td>International equity (OFI)</td>
</tr>
<tr>
<td>Enh index value (Babson)</td>
</tr>
<tr>
<td>Bernstein diversified value</td>
</tr>
<tr>
<td>Large value (OFI)</td>
</tr>
<tr>
<td>Real estate (OFI)</td>
</tr>
<tr>
<td>MM premier value</td>
</tr>
<tr>
<td>MM premier high yield</td>
</tr>
<tr>
<td>Tremont core diversified hedge fund (OFI)</td>
</tr>
<tr>
<td>Select large cap value (Davis)</td>
</tr>
<tr>
<td>MM premier enhanced</td>
</tr>
</tbody>
</table>

The Company’s other post-retirement benefit plans’ weighted-average asset allocations by asset category are as follows:

<table>
<thead>
<tr>
<th>Asset Category</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic fixed-income</td>
<td>41%</td>
<td>47%</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>59</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The Company invests in highly liquid money market investments and other fixed-income investments to the extent necessary to satisfy reasonably anticipated routine current benefit liability amounts, with additional amounts sufficient to satisfy reasonably anticipated spikes in such liability amounts.

e. Funded Status and Presentation on the Consolidated Statutory Statements of Financial Position

The funded status of the defined benefit plans is a comparison of the projected benefit obligations to the assets related to the respective plan, if any. The difference between the two represents amounts that have been appropriately recognized as expenses in prior periods or represent amounts that will be recognized as expenses in the future. The following table sets forth the funded status of the plans as of December 31, 2006 and 2005, using a September 30, 2006 and 2005 measurement date, adjusted for fourth-quarter activity, and then shows how the funded status is reconciled to the net asset and/or liability recognized in the Consolidated Statements of Financial Position. The net amount recognized of $188 million and $176 million, as of December 31, 2006 and 2005, respectively, for other post-retirement benefits was allocated to MMBMI. The Company continues to record the liability with a corresponding receivable from MMBMI.

f. Prepaid and Accrued Benefit Costs

The net pension amount recognized is broken into its respective prepaid and accrued benefit costs which are included in other than invested assets and other liabilities, respectively, in the Company’s Statutory Consolidated Statements of Financial Position. The Company continues to record the liability with a corresponding receivable from MMBMI.

The status of these plans as of December 31, 2006 and 2005, using a September 30, 2006 and 2005 measurement date, adjusted for fourth-quarter activity, is summarized below:
Notes to Consolidated Statutory Financial Statements (continued)

The change in net amount recognized for net pension benefits is as follows:

<table>
<thead>
<tr>
<th>Pension Benefits</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subtotal net amount recognized, beginning of year</td>
<td>$361</td>
<td>$335</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>108</td>
<td>84</td>
</tr>
<tr>
<td>Periodic cost</td>
<td>(61)</td>
<td>(58)</td>
</tr>
<tr>
<td>Other</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td>Subtotal net amount recognized</td>
<td>409</td>
<td>361</td>
</tr>
<tr>
<td>Non-admitted asset</td>
<td>(558)</td>
<td>(510)</td>
</tr>
<tr>
<td>Net amount recognized, end of year</td>
<td>$(149)</td>
<td>$(149)</td>
</tr>
</tbody>
</table>

**g. Net Periodic (Benefit) Cost**

Net periodic (benefit) cost is the annual accounting expense or income that the Company recognized and included in general insurance expenses in the Consolidated Statutory Statements of Income for the years ended December 31, 2006 and 2005. Of the total net periodic benefit cost of $28 million and $26 million for the years ended December 31, 2006 and 2005, respectively, for other post-retirement benefits, $16 million was allocated to MMBMI in both years.

<table>
<thead>
<tr>
<th>!<em>In Millions</em></th>
<th>Pension Benefits</th>
<th>Other Post-retirement Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>Components of net periodic (benefit) cost:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service cost</td>
<td>$44</td>
<td>$39</td>
</tr>
<tr>
<td>Interest cost</td>
<td>74</td>
<td>70</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(90)</td>
<td>(80)</td>
</tr>
<tr>
<td>Amortization of unrecognized transition obligation</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Amount of recognized net actuarial and other losses</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>Total net periodic cost</td>
<td>$61</td>
<td>$58</td>
</tr>
<tr>
<td>(Decrease)/increase in minimum liability included in surplus</td>
<td>$(4)</td>
<td>$3</td>
</tr>
</tbody>
</table>

The Company expects to spend $37 million to meet its expected obligations under its nonqualified pension plans and other post-retirement benefit plans in 2007.

The expected future pension and other post-retirement benefit payments and Medicare prescription drug direct government subsidy receipts, which reflect expected future service, are as follows:

<table>
<thead>
<tr>
<th>!In Millions!</th>
<th>Pension Benefits</th>
<th>Other Post-retirement Benefits</th>
<th>Medicare Prescription Direct Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$64</td>
<td>$22</td>
<td>$2</td>
</tr>
<tr>
<td>2008</td>
<td>67</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>2009</td>
<td>70</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>2010</td>
<td>74</td>
<td>26</td>
<td>3</td>
</tr>
<tr>
<td>2011</td>
<td>78</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>2012–2016</td>
<td>465</td>
<td>152</td>
<td>15</td>
</tr>
</tbody>
</table>

The net expense charged to operations for all employee and agent benefit plans, for the years ended December 31, 2006 and 2005 are as follows:

<table>
<thead>
<tr>
<th>!In Millions!</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>$2</td>
<td>$2</td>
</tr>
<tr>
<td>Medical</td>
<td>43</td>
<td>45</td>
</tr>
<tr>
<td>Post-retirement</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Disability</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Pension</td>
<td>61</td>
<td>58</td>
</tr>
<tr>
<td>Thrift</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>Other benefits</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>$169</td>
<td>$165</td>
</tr>
</tbody>
</table>

**h. Assumptions**

The weighted-average assumptions and assumed health care cost trend rates using a measurement date of September 30, 2006 and 2005 by the Company to calculate the benefit obligations as of December 31, 2006 and 2005 to determine the benefit costs are as follows:

<table>
<thead>
<tr>
<th>!In Millions!</th>
<th>Pension Benefits</th>
<th>Other Post-retirement Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>2005</td>
<td>2006</td>
</tr>
<tr>
<td>Weighted-average assumptions used to determine:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Obligations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>5.75%</td>
<td>5.50%</td>
</tr>
<tr>
<td>Increase in future compensation levels</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Net periodic benefit cost:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount rate</td>
<td>5.50%</td>
<td>6.00%</td>
</tr>
<tr>
<td>Long-term rate of return on assets</td>
<td>7.75%</td>
<td>8.00%</td>
</tr>
<tr>
<td>Increase in future compensation levels</td>
<td>4.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Assumed health care cost trend rates:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care cost trend rate</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Ultimate health care cost trend rate after gradual decrease until 2010 for both years 2006 and 2005, respectively</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

The long-term rate of return for the qualified pension plan is established using a building block approach with proper consideration for diversification and rebalancing. Historical markets are studied and long-term historical relationships between equities and fixed-income are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long term. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined.
Assumed health care cost trend rates have an effect on the amounts reported for the health care plans. A one-percentage point change in the assumed health care cost trend rate would have the following effects in 2006:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>One-Percentage Point Increase</th>
<th>One-Percentage Point Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect on total service and interest cost</td>
<td>$ 1</td>
<td>$ (1)</td>
</tr>
<tr>
<td>Effect on other post-retirement benefit obligation</td>
<td>17</td>
<td>(16)</td>
</tr>
</tbody>
</table>

**i. Employee Compensation Plans**

A short-term incentive compensation plan exists that is offered to substantially all employees not covered by another incentive plan. Employees are given an annual bonus based on individual and company performance. The costs associated with the short-term incentive compensation plan were recorded by the Company.

Nonqualified deferred compensation plans are offered allowing certain employees and agents to elect to defer a portion of their compensation. Several shadow investment options are available under these plans. The costs associated with the nonqualified deferred compensation plan were recorded by the Company with approximately $2 million being allocated to affiliated unconsolidated subsidiaries, including MMHLLC.

Key employees of the Company have been granted performance units in a long-term incentive compensation plan. Under this plan, performance units are granted at the start of each three year performance period. An individual employee’s participation and/or the number of units granted may vary from one cycle to the next based on performance, impact on organization and relative contribution. Each unit’s value is based on the three year consolidated results for the total enterprise on pre-established goals and measures for each year within each performance cycle. Awards are paid at the completion of each three year performance period and are subject to forfeiture if separation from service occurs for reasons other than retirement, death, disability, divestiture or position elimination. In 2006, all of the costs were recorded by the Company. In 2005, 25% of the costs were allocated to MMHLLC with the remainder recorded by the Company. Some of the costs were allocated to MMHLLC. Due to the total enterprise role of key individuals it was decided to compensate them a portion of their long-term incentive rewards out of MMHLLC.

Several key employees of the Company and MMHLLC have been granted special compensation agreements which provide fixed amounts that vest and become payable at retirement. These fixed amounts are invested in several shadow investment options specified by each agreement that allow for additional earnings to be credited based on market performance or at a stated interest rate. During 2006, 89% of the costs related to the special compensation agreements were allocated to MMHLLC with the remainder recorded by the Company. In 2005, 98% of the costs related to the special compensation agreements were allocated to MMHLLC with the remainder recorded by the Company.

In addition to the above-mentioned plans, certain of the Company’s subsidiaries, including OppenheimerFunds, Inc., and Babson Capital Management LLC, offer short-term compensation plans (profit sharing) to substantially all of their eligible employees. These plans are funded with a percentage of subsidiary profits before taxes, with funding payments made annually. Certain of the Company’s subsidiaries sponsor equity-type compensation plans. Under these plans, shares of restricted subsidiary common stock, stock options, stock appreciation rights, and phantom appreciation rights of the respective subsidiary may be awarded to key employees and directors. Due to the provisions of these plans, grants are accounted for either as awards to be settled in cash or as issuance of subsidiary common stock, depending on the plan and subsidiary. Compensation expense is accrued over the term of the awards, considering certain vesting provisions and changes in share price.

**16. Federal Income Taxes**

Total federal income taxes are based upon the Company’s best estimate of its current and deferred tax liabilities. Current tax expense is reported on the income statement as federal income tax expense if resulting from operations, and within net realized capital gains (losses) if resulting from capital transactions. Deferred income taxes, which provide for book versus tax temporary differences, are subject to limitations and are reported within surplus. Changes to deferred income taxes are reported on various lines within surplus. Limitations of deferred income taxes are recorded on the change in non-admitted assets line, whereas deferred taxes associated with net unrealized capital gains (losses) are shown within this caption on a net basis. Accordingly, the reporting of statutory to tax temporary differences, such as reserves and policy acquisition costs, and of statutory to tax permanent differences, such as policyholder dividends and tax credits, results in effective tax rates that differ from the federal statutory tax rate.

The components of the net deferred tax asset recognized in the Company’s assets, liabilities and surplus are as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>$2,593</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>(1,214)</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>1,379</td>
</tr>
<tr>
<td>Deferred tax assets non-admitted</td>
<td>(851)</td>
</tr>
<tr>
<td>Net admitted deferred tax asset</td>
<td>$ 528</td>
</tr>
<tr>
<td>Decrease (increase) in non-admitted asset</td>
<td>$ 16</td>
</tr>
</tbody>
</table>
Notes to Consolidated Statutory Financial Statements (continued)

The provision for current tax expense on earnings is as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal income tax (benefit) expense on operating earnings</td>
<td>$(52)</td>
<td>$93</td>
</tr>
<tr>
<td>Foreign income tax expense on operating earnings</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Federal income tax expense (benefit) on net capital gains (losses)</td>
<td>39</td>
<td>(12)</td>
</tr>
<tr>
<td>Total federal and foreign income tax (benefit) expense</td>
<td>$(3)</td>
<td>$91</td>
</tr>
</tbody>
</table>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

<table>
<thead>
<tr>
<th>December 31,</th>
<th>2006</th>
<th>2005</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserve items</td>
<td>$722</td>
<td>$760</td>
<td>$(38)</td>
</tr>
<tr>
<td>Policy acquisition costs</td>
<td>537</td>
<td>520</td>
<td>17</td>
</tr>
<tr>
<td>Investment items</td>
<td>325</td>
<td>298</td>
<td>26</td>
</tr>
<tr>
<td>Non-admitted assets</td>
<td>307</td>
<td>256</td>
<td>51</td>
</tr>
<tr>
<td>Policyholder dividend related items</td>
<td>261</td>
<td>241</td>
<td>20</td>
</tr>
<tr>
<td>Pension and compensation related items</td>
<td>188</td>
<td>169</td>
<td>19</td>
</tr>
<tr>
<td>Expense items</td>
<td>135</td>
<td>80</td>
<td>55</td>
</tr>
<tr>
<td>Unrealized investment losses</td>
<td>91</td>
<td>150</td>
<td>(59)</td>
</tr>
<tr>
<td>Other</td>
<td>27</td>
<td>58</td>
<td>(31)</td>
</tr>
<tr>
<td>Total deferred tax assets</td>
<td>2,593</td>
<td>2,533</td>
<td>60</td>
</tr>
<tr>
<td>Non-admitted deferred tax assets</td>
<td>(851)</td>
<td>(867)</td>
<td>16</td>
</tr>
<tr>
<td>Admitted deferred tax assets</td>
<td>1,742</td>
<td>1,666</td>
<td>76</td>
</tr>
</tbody>
</table>

Deferred tax liabilities:

<table>
<thead>
<tr>
<th>$ in Millions</th>
<th>2006</th>
<th>2005</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized investment gains</td>
<td>421</td>
<td>520</td>
<td>(99)</td>
</tr>
<tr>
<td>Investment items</td>
<td>345</td>
<td>287</td>
<td>58</td>
</tr>
<tr>
<td>Deferred and uncollected premium</td>
<td>184</td>
<td>181</td>
<td>3</td>
</tr>
<tr>
<td>Pension items</td>
<td>194</td>
<td>177</td>
<td>17</td>
</tr>
<tr>
<td>Other</td>
<td>70</td>
<td>62</td>
<td>8</td>
</tr>
<tr>
<td>Total deferred tax liabilities</td>
<td>1,214</td>
<td>1,227</td>
<td>(13)</td>
</tr>
<tr>
<td>Net admitted deferred tax asset</td>
<td>$528</td>
<td>$439</td>
<td>$89</td>
</tr>
</tbody>
</table>

The change in net deferred income taxes, excluding amounts non-admitted, is comprised of the following and is presented as a change to net unrealized capital gains (losses) and net deferred income taxes within the Statutory Statements of Changes in Surplus:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in deferred tax assets</td>
<td>$60</td>
<td>$83</td>
</tr>
<tr>
<td>Change in deferred tax liabilities</td>
<td>13</td>
<td>39</td>
</tr>
<tr>
<td>Increase in deferred tax asset</td>
<td>73</td>
<td>122</td>
</tr>
<tr>
<td>Less items not recorded in the change in net deferred income taxes:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative effect of adoption of accounting principles</td>
<td>(7)</td>
<td>—</td>
</tr>
<tr>
<td>Balance transferred from subsidiary</td>
<td>(13)</td>
<td>—</td>
</tr>
<tr>
<td>Prior year correction</td>
<td>(41)</td>
<td>—</td>
</tr>
<tr>
<td>Tax effect of unrealized gains excluding cumulative effect of adoption of accounting principles</td>
<td>(128)</td>
<td>(107)</td>
</tr>
<tr>
<td>Tax effect of unrealized losses</td>
<td>59</td>
<td>22</td>
</tr>
<tr>
<td>(Decrease) increase in net deferred income taxes</td>
<td>$(57)</td>
<td>$37</td>
</tr>
</tbody>
</table>

As of December 31, 2006, the Company had no net operating or capital loss carryforwards to include in deferred income taxes.

The components of federal and foreign income tax on operating items is recorded on the Statutory Statements of Income and Statutory Statements of Changes in Surplus and is different from that which would be obtained by applying the statutory federal income tax rate to operating income before taxes. The significant items causing this difference are as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision computed at statutory rate</td>
<td>$258</td>
<td>35%</td>
</tr>
<tr>
<td>Investment items</td>
<td>(77)</td>
<td>(10)</td>
</tr>
<tr>
<td>Tax credits</td>
<td>(56)</td>
<td>(8)</td>
</tr>
<tr>
<td>Non-admitted assets</td>
<td>(49)</td>
<td>(7)</td>
</tr>
<tr>
<td>Change in reserve valuation basis</td>
<td>(7)</td>
<td>(1)</td>
</tr>
<tr>
<td>Policyholder dividends</td>
<td>(5)</td>
<td>(1)</td>
</tr>
<tr>
<td>Other</td>
<td>(10)</td>
<td>(1)</td>
</tr>
<tr>
<td>Total statutory income taxes</td>
<td>$54</td>
<td>7%</td>
</tr>
<tr>
<td>Federal and foreign income tax (benefit) expense</td>
<td>$(3)</td>
<td>$91</td>
</tr>
<tr>
<td>Change in net deferred income taxes</td>
<td>57</td>
<td>(37)</td>
</tr>
<tr>
<td>Total statutory income taxes</td>
<td>$54</td>
<td>$54</td>
</tr>
</tbody>
</table>

During the years ended December 31, 2006 and 2005, the Company paid federal income taxes in the amount of $25 million and $368 million, respectively. As of December 31, 2006, federal income taxes paid in the current and prior years that will be available for recovery in the event of future net losses are as follows: $84 million in 2006, $40 million in 2005, and $113 million in 2004.
The Company and its eligible subsidiaries and certain affiliates are included in a consolidated U.S. federal income tax return. The Company and its eligible subsidiaries and certain affiliates (the “Parties”) have executed and are subject to a written tax allocation agreement (the “Agreement”). The Agreement sets forth the manner in which the total combined federal income tax is allocated among the Parties. The Agreement provides the Company with the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur. Further, the Agreement provides the Company with the enforceable right to utilize its net losses carried forward as an offset to future net income subject to federal income taxes.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes.” The NAIC is evaluating the applicability of FIN 48 on statutory financial reporting. Because statutory guidance has not been issued, the Company has not yet determined the statutory impact of adoption on its statutory financial statements.

The Job Creation and Worker Assistance Act of 2002 suspended the limitation on the deductibility of the Company’s dividends paid to policyholders for 2001 through 2003. The Pension Funding Equity Act of 2004 repealed the limitation for 2005 and later years. Based on data released by the United States Internal Revenue Service (“IRS”) during 2006 and 2005, the Company revised its estimate of the financial statement effect of the limitation used at year end 2005 and 2004, respectively.

The American Jobs Creation Act of 2004, enacted October 22, 2004, included a one-time dividend received deduction on the repatriation of certain earnings to a U.S. taxpayer. Certain affiliates of the Company, recorded on an equity method, repatriated $50 million under this provision during the 2005 calendar year. These affiliates would have paid approximately an additional $6 million in taxes on the repatriated earnings without the one-time dividend received deduction.

In 2006, the Company settled tax issues with the federal government for the years 1984 through 1987, and 1998 through 2000. As a result of these settlements, the Company’s tax liability was reduced by $77 million in 2006. The IRS is currently examining tax years 2001 through 2003. Management believes any adjustments that may result from such examinations will not materially impact the Company’s financial position or liquidity. While the Company is not aware of any adjustments that should reasonably give rise to a material adverse impact to the Company’s operating results, the outcome of a particular proceeding may be material to the Company’s operating results for a particular period depending upon, among other factors, the size of the adjustment and the level of the Company’s income for the period.

17. Business Risks, Commitments and Contingencies

a. Risks and Uncertainties

The Company operates in a business environment subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, interest rate risk and credit risk. Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments and in the amounts due to policyholders. To the extent that fluctuations in interest rates cause the duration of assets and liabilities to differ, the Company attempts to control its exposure to this risk by, among other things, asset/liability matching techniques that account for the cash flow characteristics of the assets and liabilities. Credit risk is the risk that issuers of investments owned by the Company may default or that other parties may not be able to pay amounts due to the Company. The Company attempts to manage its investments to limit credit risk by diversifying its portfolio among various security types and industry sectors. Management does not believe that significant concentrations of credit risk existed as of and for the years ended December 31, 2006 and 2005.

The Company’s currency exchange risk is related to non-U.S. dollar denominated investments, its medium-term note programs, and international insurance operations. The Company attempts to manage its currency exposure related to its medium-term note programs and a portion of its currency exposure related to its international operations through the use of derivatives. Capital invested by the Company, in its international operations, is hedged against currency exchange risk as the assets backing the capital are generally denominated in U.S. dollars.

Asset-based management fees calculated as a percentage of the separate account assets are a source of revenue to the Company. Gains and losses in the equity markets may result in corresponding increases and decreases in the Company’s separate account assets and related revenue.

b. Leases

The Company leases office space and equipment in the normal course of business under various non-cancelable operating lease agreements. Additionally, the Company, as lessee, has entered into various sublease agreements with affiliates for office space, such as OppenheimerFunds, Inc. and Babson Capital. Total rental expense on net operating leases was $35 million and $34 million, which is net of $19 million and $16 million of sublease receipts, for the years ended December 31, 2006 and 2005, respectively.
Future minimum commitments for all net operating lease contractual obligations as of December 31, 2006 were as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Leases</th>
<th>Subleases</th>
<th>Net Operating Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$ 55</td>
<td>$ 20</td>
<td>$ 35</td>
</tr>
<tr>
<td>2008</td>
<td>49</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>2009</td>
<td>44</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>2010</td>
<td>41</td>
<td>22</td>
<td>19</td>
</tr>
<tr>
<td>2011</td>
<td>35</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Thereafter</td>
<td>80</td>
<td>58</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>$304</td>
<td>$181</td>
<td>$143</td>
</tr>
</tbody>
</table>

c. Guaranty Funds
The Company is subject to insurance guaranty fund laws in the states in which it does business. These laws assess insurance companies amounts to be used to pay benefits to policyholders and policy claimants of insolvent insurance companies. Many states allow these assessments to be credited against future premium taxes. The Company believes such assessments in excess of amounts accrued will not materially impact its financial position, results of operations, or liquidity.

d. Litigation
The Company is involved in litigation arising in and out of the normal course of business, which seeks both compensatory and punitive damages. While the Company is not aware of any actions or allegations that should reasonably give rise to a material adverse impact to the Company’s financial position or liquidity, the outcome of litigation cannot be foreseen with certainty.

The Company, along with numerous other defendants, has been named in an adversary proceeding in the Enron bankruptcy. In addition, in June 2005, the Company’s former Chief Executive Officer (“former CEO”) filed a demand for arbitration contesting his termination “for cause” from the Company. In 2006, the arbitration panel ruled that the former CEO’s conduct did not satisfy the Employment Contract’s requirement for a “for cause” termination and awarded him a portion of the compensation and severance benefits specified in his employment agreement. The Company has appealed this ruling to the Massachusetts state court. In 2006, the Company accrued an additional $9 million in compensation expense bringing the total accrual for this matter to approximately $71 million as of December 31, 2006.

In 2005, the Company received final approval of a nationwide class action settlement involving alleged insurance sales practices claims. In 2006, all appeals to this settlement were resolved. The settlement class includes all policyholders, with certain limited exceptions, who have or had an ownership interest in permanent life policies, term life policies or disability income policies issued between January 1, 1983 and December 31, 2003. As of December 31, 2006, the Company has paid $136 million of the original $320 million accrual.

It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company’s financial position or liquidity. However, the outcome of a particular proceeding may be material to the Company’s operating results for a particular period depending upon, among other factors, the size of the loss or liability and the level of the Company’s income for the period.

e. Regulatory Inquiries
The Company is subject to governmental and administrative proceedings and regulatory examinations and investigations in the ordinary course of its business. The Company has cooperated fully with these regulatory agencies with regard to their examinations and investigations and has responded to information requests and comments.

These examinations and investigations include industry-wide investigations of issues such as (a) late trading and market timing in connection with mutual funds and variable insurance contracts, (b) revenue sharing, (c) compensation and bidding arrangements and possible anti-competitive activities between insurance producers and brokers and issuers of insurance products, and (d) marketing, pricing and sales of retirement products. In connection with examinations and investigations, the Company has been contacted by various regulatory agencies and state attorneys general including the Securities and Exchange Commission, U.S. Department of Labor, National Association of Securities Dealers, Commonwealth of Massachusetts Division of Insurance, the State of Connecticut Insurance Department, and the attorneys general of Connecticut, Massachusetts and New York.

The Company believes that it is reasonable to expect that regulatory inquiries, examinations and investigations into the financial services industry will continue for the foreseeable future and may result in new industry-wide legislation, rules, and regulations that could significantly affect the foreseeable financial services industry as a whole. It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company’s financial position or liquidity. The outcome of a particular matter may be material to the Company’s operating results for a particular period depending upon, among other factors, the size of the matter and the level of the Company’s income for the period.

f. Commitments
In the normal course of business, the Company provides specified guarantees and funding to MMHLLC and certain of its subsidiaries. As of December 31, 2006 and 2005, the Company had approximately $130 million of outstanding unsecured funding commitments. As of December 31, 2006 and 2005, the Company had no liability attributable to the funding commitments.

In the normal course of business, the Company enters into letter-of-credit arrangements. As of December 31, 2006 and 2005, the Company had approximately $87 million and $74 million of outstanding letters of credit, respectively. As of December 31, 2006 and 2005, the Company had no liability attributable to the letter-of-credit arrangements.
MMHLLC entered into an international asset management agreement that includes guarantees to pay damages suffered by a customer incurred as a result of breach of MMHLLC’s obligation under the agreement, and for any willful default, negligence or fraud by MMHLLC or its subsidiaries. As of December 31, 2006, MMHLLC had no outstanding obligations attributable to these guarantees. This guarantee is subject to a $66 million limitation.

In the normal course of business, the Company enters into commitments to purchase certain investments. The majority of these commitments have funding periods that extend between one and five years except Low Income Housing Tax Credits (“LIHTC”) which extend up to eight years. The Company is not required to fund commitments once the commitment period expires. As of December 31, 2006, the Company had the following commitments:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Thereafter</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private placements</td>
<td>$397</td>
<td>$178</td>
<td>$131</td>
<td>$67</td>
<td>$330</td>
<td>$1,103</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>288</td>
<td>479</td>
<td>421</td>
<td>73</td>
<td>8</td>
<td>1,269</td>
</tr>
<tr>
<td>Real estate</td>
<td>20</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Joint ventures, partnerships and LLCs</td>
<td>726</td>
<td>261</td>
<td>118</td>
<td>298</td>
<td>1,056</td>
<td>2,459</td>
</tr>
<tr>
<td>LIHTC investments (including equity contributions)</td>
<td>33</td>
<td>10</td>
<td>—</td>
<td>—</td>
<td>2</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,464</strong></td>
<td><strong>$928</strong></td>
<td><strong>$670</strong></td>
<td><strong>$438</strong></td>
<td><strong>$1,396</strong></td>
<td><strong>$4,896</strong></td>
</tr>
</tbody>
</table>

In November 2006, MassMutual Capital Partners LLC (“MassMutual Capital”), a newly formed indirect wholly owned subsidiary of the Company, committed to purchase $300 million of newly issued convertible preferred stock of an unaffiliated reinsurer, representing a 34.4% ownership interest. This transaction is subject to the approval of the reinsurer’s shareholders and, if approval is received, a closing in the second quarter of 2007 is anticipated.

In June 2005, the Company and MassMutual Funding LLC, jointly as borrowers, entered into a five-year revolving credit facility in the amount of $500 million. This facility was established with a syndicate of lenders, and may be used for general corporate purposes and commercial paper back-up. As of December 31, 2006 and 2005, the Company had no liability attributable to this facility.

In connection with acquisitions and dispositions, the Company had commitments related to property lease arrangements, certain indemnities, investments and other business obligations, in the normal course of business. As of December 31, 2006 and 2005, the Company had no outstanding obligations attributable to these commitments.

Certain commitments and guarantees of the Company provide for the maintenance of subsidiary regulatory capital and surplus levels and liquidity sufficient to meet certain obligations. These commitments and guarantees are not limited. As of December 31, 2006 and 2005, the Company had no outstanding obligations attributable to these commitments and guarantees.

**18. Withdrawal Characteristics**

### a. Annuity Actuarial Reserves and Liabilities for Deposit-type Contracts

The withdrawal characteristics of the Company’s annuity actuarial reserves and deposit-type contracts as of December 31, 2006 are illustrated below:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Amount</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject to discretionary withdrawal –</td>
<td></td>
<td></td>
</tr>
<tr>
<td>With fair value adjustment</td>
<td>$7,729</td>
<td>13%</td>
</tr>
<tr>
<td>At book value less current surrender charge of 5% or more</td>
<td>1,162</td>
<td>2</td>
</tr>
<tr>
<td>At fair value</td>
<td>36,692</td>
<td>64</td>
</tr>
<tr>
<td>Subtotal</td>
<td>45,583</td>
<td>79</td>
</tr>
<tr>
<td>Subject to discretionary withdrawal –</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At book value without fair value adjustment</td>
<td>4,945</td>
<td>8</td>
</tr>
<tr>
<td>Not subject to discretionary withdrawal</td>
<td>7,397</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>$57,925</td>
<td>100%</td>
</tr>
</tbody>
</table>

The following is the reconciliation of total annuity actuarial reserves and liabilities for deposit-type contracts as of December 31, 2006:

<table>
<thead>
<tr>
<th>In Millions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statutory Statements of Financial Position:</strong></td>
<td></td>
</tr>
<tr>
<td>Policyholders’ reserves – group annuities</td>
<td>$8,893</td>
</tr>
<tr>
<td>Policyholders’ reserves – individual annuities</td>
<td>6,592</td>
</tr>
<tr>
<td>Policyholders’ reserves – guaranteed investment contracts</td>
<td>586</td>
</tr>
<tr>
<td>Liabilities for deposit type contracts</td>
<td>3,599</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>19,670</td>
</tr>
<tr>
<td><strong>Separate Account Annual Statement:</strong></td>
<td></td>
</tr>
<tr>
<td>Annuities</td>
<td>36,684</td>
</tr>
<tr>
<td>Other annuity contract deposit funds and guaranteed interest contracts</td>
<td>1,571</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>38,255</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$57,925</strong></td>
</tr>
</tbody>
</table>
b. Separate Accounts

The Company has separate accounts classified as the following: (1) indexed, which are invested to mirror an established index based on the guarantee; (2) non-indexed, which have reserve interest rates at no greater than 4% and/or fund long-term interest guarantee in excess of a year that does not exceed 4%; and (3) non-guaranteed, which are variable accounts where the benefit is determined by the performance and/or market value of the investment held in the separate account with incidental risk, notional expense, and minimum death benefit guarantees.

Information regarding the separate accounts of the Company as of and for the year ended December 31, 2006 is as follows:

<table>
<thead>
<tr>
<th>In Millions</th>
<th>Indexed</th>
<th>Non-Indexed</th>
<th>Non-Guaranteed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net premium, considerations or deposits</td>
<td>$497</td>
<td>—</td>
<td>$6,637</td>
<td>$7,134</td>
</tr>
</tbody>
</table>

Reserves:
- For accounts with assets at:
  - Fair value | $1,565 | $984 | $41,547 | $44,096 |
  - Amortized cost | — | 817 | — | 817 |
- Total reserves | 1,565 | 1,801 | 41,547 | 44,913 |

Other liabilities | — | — | 529 | 529 |

Total | $1,565 | $1,801 | $42,076 | $45,442 |

By withdrawal characteristics:

<table>
<thead>
<tr>
<th>Subject to withdrawal</th>
<th>Indexed</th>
<th>Non-Indexed</th>
<th>Non-Guaranteed</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>With fair value adjustment</td>
<td>$1,062</td>
<td>—</td>
<td>—</td>
<td>$1,062</td>
</tr>
<tr>
<td>At book value without fair value adjustment and current surrender charge of 5% or more</td>
<td>—</td>
<td>—</td>
<td>1,138</td>
<td>1,138</td>
</tr>
<tr>
<td>At fair value, which may or may not have a surrender charge</td>
<td>—</td>
<td>984</td>
<td>39,889</td>
<td>40,873</td>
</tr>
<tr>
<td>At book value without fair value adjustment and with current surrender charge less than 5%</td>
<td>—</td>
<td>817</td>
<td>529</td>
<td>1,337</td>
</tr>
<tr>
<td>Subtotal</td>
<td>1,062</td>
<td>1,801</td>
<td>41,547</td>
<td>44,410</td>
</tr>
</tbody>
</table>

Other liabilities | 503 | — | 529 | 1,032 |

Total | $1,565 | $1,801 | $42,076 | $45,442 |

For the year ended December 31, 2006, net transfers to separate accounts which are included in the Consolidated Statutory Statements of Income of $1,668 million included transfers to separate accounts of $7,976 million and transfers from separate accounts of $6,308 million. In addition, $497 million of net deposits on deposit liabilities related to the Global Medium-Term Note Program were also transferred to separate accounts, but excluded from the Consolidated Statutory Statement of Income.

19. Presentation of the Consolidated Statutory Statements of Cash Flows

As required by SSAP No. 69 “Statement of Cash Flows,” the Company has included in the Consolidated Statutory Statements of Cash Flows non-cash transactions primarily related to the following: (1) the exchange of bonds for bonds of $1,817 million and $3,345 million for the years ended December 31, 2006 and 2005, respectively; (2) the conversion of stocks to stocks of $316 million and $126 million for the years ended December 31, 2006 and 2005, respectively; (3) stock distributions from other invested assets of $113 million and $7 million for the years ended December 31, 2006 and 2005, respectively; (4) the conversion of stocks to other invested assets of $71 million for the year ended December 31, 2006; (5) the conversion of bonds to stocks of $1 million and $9 million for the years ended December 31, 2006 and 2005, respectively; (6) reclassification of short-term investments to bonds of $906 million for the year ended December 31, 2006; (7) the transfer of real estate assets from separate accounts to partnerships and limited liability companies of $398 million for the year ended December 31, 2006; (8) premium collected from customers that used policyholder dividends to pay renewal premium or to purchase additional insurance of $1,026 million and $884 million for the years ended December 31, 2006 and 2005, respectively; (9) deposits from dividends left on deposit, to accumulate interest, of $40 million and $39 million for the years ended December 31, 2006 and 2005, respectively; and (10) policyholder dividends applied to reduce policy indebtedness of $19 million and $16 million for the years ended December 31, 2006 and 2005, respectively.
General Agencies and Other Offices

Massachusetts Mutual Life Insurance Company and its subsidiaries have offices around the globe. Listed here are our general agencies, health & executive benefit regional sales offices, retirement services offices, and international locations. For more information on a possible career with MassMutual, visit the recruiting section of our Web site: www.massmutual.com/recruitment.

General Agencies

Alabama
Two North Twentieth Street, Suite 150
Birmingham, AL 35203
(205) 244-1141

Albany
8 Southwoods Boulevard, 2nd Floor
Albany, NY 12211-2554
(518) 463-5553

Arizona
4350 E Camelback Road
Building F-150
Phoenix, AZ 85018
(602) 912-0123

Atlanta - Briil
100 Ashford Center North, Suite 250
Atlanta, GA 30338
(770) 551-3400

Atlanta - Moore
3333 Peachtree Rd, Suite 400
Atlanta, GA 30326
(404) 261-8900

Baltimore
11350 McCormick Road
Executive Plaza IV, Suite 200
Baltimore, MD 21231
(410) 785-7654

Boston
125 Summer Street, Suite 510
Boston, MA 02110
(617) 439-4389

Buffalo
Cathedral Park Tower, Suite 500
37 Franklin Street
Buffalo, NY 14202-4182
(716) 852-1321

Central New Jersey
1011 Route 22 West, Suite 201
Bridgewater, NJ 08807
(908) 704-1800

Central New York
432 North Franklin Street
Syracuse, NY 13204
(315) 449-3000

Central Pennsylvania
100 Corporate Center Drive
Suite 201
Camp Hill, PA 17011
(717) 763-7365

Charlotte
6101 Carnegie Boulevard, Suite 400
Charlotte, NC 28209-4653
(704) 557-9600

Chicago - Peartre
300 South Wacker, Suite 800
Chicago, IL 60606
(312) 347-1660

Dallas - Harris
12750 Merit Drive, Suite 900
Dallas, TX 75251
(972) 386-5050

Dallas - Lewis
5080 Spectrum Drive, Suite 902 West
Dallas, TX 75001-4649
(972) 458-9907

Denver - O'Keefe
4100 East Mississippi Avenue
Suite 900
Denver, CO 80246
(303) 691-0070

Denver - Stillman
Metropoint I
4600 South Ulster Street, Suite 1200
Denver, CO 80237
(303) 692-8183

Fort Worth
Carter Burgess Plaza
777 Main Street, Suite 2260
Fort Worth, TX 76110
(817) 332-4451

Greensboro
300 N. Greene Street, Suite 1650
Greensboro, NC 27401
(336) 275-0881

Hartford/Springfield
1500 Main St., Suite 1200
Springfield, MA 01115
(413) 781-6850

Philadelphia
314 Farmington Avenue
Farmington, CT 06032-1965
(860) 674-1800

Hawaii
City Financial Tower
201 Merchant Street, Suite 2200
Honolulu, HI 96813
(808) 537-4591

Houston - Brock
1980 Post Oak Boulevard, Suite 1700
Houston, TX 77056
(713) 621-1660

Houston - McAndrews
Three Greenway Plaza, Suite 1700
Houston, TX 77046
(713) 402-3800

Indianapolis
501 Congressional Boulevard
Suite 200
Carmel, IN 46032
(317) 805-2955

Iowa
1415 28th Street, Suite 350
West Des Moines, IA 50266
(515) 223-6277

Jackson
The Bluffs at Mayes Lake
1635 Lelia Drive, Suite 100
Jackson, MS 39216
(601) 981-4545

Jacksonville/Savannah
10151 Deerwood Park Blvd
Building 100, Suite 300
Jacksonville, FL 32256
(904) 998-7300

Kansas City - Lovely
Corporate Woods 40
9401 Indian Creek Parkway
Suite 450
Overland Park, KS 66210
(913) 336-5000

Kansas City - Lindsay
10740 Nall Avenue, Suite 100
Leawood, KS 66221
(913) 234-0300

Kentucky/West Virginia
2365 Harrodsburg Road, Suite A300
Lexington, KY 40504
(859) 223-4141

Lehigh Valley
Stabler Corporate Center
3773 Corporate Parkway, Suite 380
Center Valley, PA 18034
(610) 796-2500

Long Island - Ranfiie
6800 Jericho Turnpike, Suite 202W
Syosset, NY 11791
(516) 364-2403

Long Island - Sparacio
1000 Woodbury Road, Suite 400
Woodbury, NY 11797
(516) 364-3333

Los Angeles - Fraser
4601 Wilshire Boulevard, Third Floor
Los Angeles, CA 90010-3882
(323) 965-6300

Los Angeles - Michael
1875 Century Park East, Suite 1950
Los Angeles, CA 90067
(310) 407-2800

Louisiana
1100 Poydras Street, Suite 1000
New Orleans, LA 70163
(504) 299-8971

Michigan - Fore
33533 West 12 Mile Road, Suite 295
Farmington Hills, MI 48331
(248) 324-1100

Michigan - Seymour/Gill
28411 Northwestern Highway
Suite 1000
Southfield, MI 48034
(248) 208-0660

Minneapolis
901 Marquette Avenue, Suite 2600
Minneapolis, MN 55402-2468
(612) 333-1413

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Regency Center
10250 Regency Circle, Suite 250
Omaha, NE 68114
(402) 397-8600

Nebraska
Regency Center
10250 Regency Circle, Suite 250
Omaha, NE 68114
(402) 397-8600

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150 Clare Road Sixth Floor
Little Falls, NJ 07424
(973) 237-0100

New York - Bluestone
One Penn Plaza, Suite 2035
250 West 34th Street
New York, NY 10119-0002
(212) 736-2001

New York - Cowan
530 Fifth Avenue, 14th Floor
New York, NY 10017
(212) 536-6000

Northern New England - Boyle
436 Amherst Street, 2nd Floor
Nashua, NH 03063
(603) 882-8121

Northern New England - Shaughnessy
2 Executive Park Drive, Suite 7
Bedford, NH 03110
(603) 623-7326

Ohio - Gals
1660 West 2nd Street, Suite 850
Cleveland, Ohio 44113-1454
(216) 621-5680

Ohio - McKenna
300 E-Commerce Way, Suite 390
Cincinnati, OH 45241
(513) 579-8555

Ohio - Seymour
1760 Manley Road
Maumee, OH 43537
(419) 893-9759

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292 Madison Avenue, 7th Floor
New York, NY 10017
(212) 213-5151

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Atlanta, GA 30326
(404) 261-8900

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New York, NY 10036-5101
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New Orleans, LA 70163
(504) 299-8971

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(212) 536-6000

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New Orleans, LA 70163
(504) 299-8971

General Agencies and Other Offices
General Agencies and Other Offices (continued)

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Oklahoma City, OK 73142
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Orange County
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Newport Beach, CA 92660
(949) 660-1717

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222 SW Columbia, Suite 825
Portland, OR 97201
(503) 221-1211

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401 S.W. Water Street, Suite 303
Peoria, IL 61602
(309) 673-3839

Philadelphia - Fishman
Two Bala Plaza, Suite 901
Bala Cynwyd, PA 19004
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Philadelphia - Whipple
220 Gibraltar Road, Suite 350
Horsham, PA 19044
(215) 441-8200

Pittsburgh
11 Stanwix Street, Suite 1200
Pittsburgh, PA 15222-5401
(412) 562-1600

Providencia
2 Hemingway Drive
Suite 350
Rochester, NY 14604
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Plaza Scotiabank, Suite 1400
273 Ponce de Leon Ave
Hato Rey, PR 00917
(787) 758-2244

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880 Sadler Road, Suite 110
Glen Allen, VA 23060
(804) 346-1011

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600 Clinton Square
Rochester, NY 14604
(585) 262-5600

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Natomas Corporate Center
2495 Natomas Park Drive, Suite 500
Sacramento, CA 95833
(916) 565-7221

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Dierbergs Corporate Plaza
16900 Swingly Ridge Road
Suite 240
Chesterfield, MO 63017-1706
(636) 728-2400

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(801) 943-6277

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Westlake Village, CA 91362
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101 Metro Drive, Suite 550
San Jose, CA 95110
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 Parsippany, NJ 07054
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(813) 286-2280

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8 Cadillac Drive, Suite 150
Brentwood, TN 37027
(615) 309-6300

Tennessee - Stonebarger
8245 Tournament Drive, Suite 300
Memphis, TN 38125
(901) 748-8888

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Virginia Beach, VA 23462
(757) 490-9041

Washington - Norman
1593 Spring Hill Road, Suite 500 East
Vienna, VA 22182-2245
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Bethesda, MD 20817
(301) 581-7200

Washington - West
4520 East West Highway, Suite 700
Bethesda, MD 20814
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(608) 829-0115

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Mid-Atlantic Regional Sales Office, Atlanta
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Suite 150
Atlanta, GA 30338
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Northeast Regional Sales Office, Boston
75 Second Avenue, Suite 330
Needham, MA 02494
(781) 433-9888

Central Regional Satellite Sales Office, Chicago
100 South Wacker Drive, Suite 1220
Chicago, IL 60606
(312) 727-0209

West Regional Sales Office, Dallas
8700 West Bryn Mawr, Suite 750S
Dallas, TX 75235
(214) 303-2450

Northeast Regional Satellite Sales Office, Hartford
3750 Farmington Avenue, Suite 1000
Hartford, CT 06103
(860) 574-9431

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7300 College Boulevard, Suite 215
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1041 Mill Run Circle, Suite 205
Owings Mills, MD 21117
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Boston
Wellesley Office Park
60 William Street, Suite 320
Wellesley, MA 02481
(800) 601-9810

Chicago
8700 West Bryn Mawr, Suite 750S
Chicago, IL 60631
(800) 603-1558

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Independence, OH 44131
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2851 High Meadow Circle
Suite 245
Auburn Hills, MI 48326
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Pasadena Tower 1, Suite 470
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Pasadena, CA 91101
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721 Northwest 14th Street
Oklahoma City, OK 73103
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Fuh Hwa Securities Investment Trust Co., Limited
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www.barings.com
Frankfurt, Germany

Baring France SAS
Tel: +33(0)1-53-93-60-00
www.barings.com
Paris, France

Baring Asset Management Limited
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www.barings.com
London, U.K.

Baring Asset Management (Europe)
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www.barings.com
London, U.K.

OFI Institutional Asset Management (Europe)
Tel: +44(0)20-7491-5330
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www.vidacorp.cl
Santiago, Chile

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www.barings.com
Boston, MA

Baring Asset Management Inc.
(415) 834-1500
www.barings.com
San Francisco, CA

Baring Asset Management Inc.
(416) 599-1835
www.baring-asset-can.com
Toronto, Canada

OFI Institutional Asset Management, Inc.
(800) 422-1854
www.ofiinstitutional.com
Boston, MA

OppenheimerFunds, Inc.
(212) 323-0200
www.oppenheimerfunds.com
New York, NY

OppenheimerFund Services
(303) 768-3200
www.oppenheimerfunds.com
Centennial, CO

Tremont Group Holdings, Inc.
(914) 925-1140
www.tremont.com
Rye, NY

Major Subsidiaries and Affiliates

MassMutual Financial Group is a marketing designation (or fleet name) for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliates, which include:

MassMutual Asia Limited
Hong Kong
Kenneth Yu
Managing Director and Chief Executive Officer
Macau Branch Office, Macau
Shanghai Representative Office, Shanghai, China

Babson Capital Management LLC
Boston, Massachusetts
Roger W. Crandall
Chairman, President and CEO

Baring Asset Management Limited
London, U.K.
David J. Brennan
Chairman and CEO

C.M. Life Insurance Company
Enfield, Connecticut
Stuart H. Reese
Chairman, President and CEO

Cornerstone Real Estate Advisors LLC
Hartford, Connecticut
David J. Reilly
President and CEO

Fuh Hwa Securities Investment Trust Co., Limited
Taipei, Taiwan
Mark Duh
Chairman

MassMutual Europe S.A.
Luxembourg
Olivier Maingard
Chief Executive Officer

MassMutual International LLC
Springfield, Massachusetts
Elaine A. Sarsynski
President and CEO

MassMutual Life Insurance Company
Tokyo, Japan
Hidezo Hirano
President and CEO

MassMutual Mercuries Life Insurance Co., Limited
Taipei, Taiwan
Danny C.H. Liu
President

MML Bay State Life Insurance Company
Enfield, Connecticut
Stuart H. Reese
Chairman, President and CEO

MML Investors Services, Inc.
Springfield, Massachusetts
Michael R. Fanning
President

OppenheimerFunds, Inc.
New York, New York
John V. Murphy
Chairman, President and CEO

The MassMutual Trust Company, PSEB
Enfield, Connecticut
Michal L. Bobryk
President
Senior Management
Massachusetts Mutual Life Insurance Company

Stuart H. Reese
Chairman, President and
Chief Executive Officer

Frederick C. Castellani
Executive Vice President
Retirement Services

Roger W. Crandall
Executive Vice President
Chief Investment Officer
Chairman, President and CEO,
Babson Capital Management LLC

Michael Foley
Chief Information Officer

William R. Glavin, Jr.
Executive Vice President
U.S. Insurance Group

John V. Murphy
Executive Vice President
Chairman, President and CEO,
OppenheimerFunds, Inc.

Mark D. Roellig
Executive Vice President and
General Counsel

Michael T. Rollings
Executive Vice President and
Chief Financial Officer

Elaine A. Sarsynski
Executive Vice President
Chief Administrative Officer and
President and CEO,
MassMutual International LLC

Marie M. Augsberger
Senior Vice President
Retirement Services

Richard D. Bourgeois
Senior Vice President
Corporate Financial Operations

John W. Chandler
Senior Vice President
U.S. Insurance Group

Kenneth S. Cohen
Senior Vice President and
Deputy General Counsel
Government Relations

Gregory E. Deavens
Senior Vice President
U.S. Insurance Group

Andrew C. Dickey
Senior Vice President
Retirement Income Group

Anne Melissa Dowling
Senior Vice President
U.S. Insurance Group

Michael R. Fanning
Senior Vice President
U.S. Insurance Group

Beverly A. Holmes
Senior Vice President
Retirement Services

Steven S. Holstein
Senior Vice President
U.S. Insurance Group

M. Dale Janes
Senior Vice President
Retirement Services

Isadore Jermy
Senior Vice President and Actuary
Corporate Actuarial

E. Thomas Johnson, Jr.
Senior Vice President
Retirement Income Group

Stephen L. Kuhn
Senior Vice President, Secretary and
Deputy General Counsel

Melissa Millan
Senior Vice President
U.S. Insurance Group

William O’Grady
Senior Vice President
Retirement Services

Jonathan Picoult
Senior Vice President
U.S. Insurance Group

Larry N. Port
Senior Vice President
Mergers and Acquisitions

Burvin E. Pugh, Jr.
Senior Vice President
U.S. Insurance Group

M. Trish Robinson
Senior Vice President
Strategic Communications and
Community Responsibility

Donald B. Robitaille
Senior Vice President and
General Auditor

John R. Skar
Senior Vice President and
Chief Actuary

Margaret Sperry
Senior Vice President
Chief Compliance Officer

J. Spencer Williams
Senior Vice President
Retirement Income Group

Gary J. Bacchiocchi
Corporate Vice President
Financial Products Division

Peter J. Bautz
Corporate Vice President
Corporate Financial Operations

David W. Carlson
Corporate Vice President
Corporate Actuarial

John F. Carlson
Corporate Vice President
U.S. Insurance Group

James S. Collins
Corporate Vice President and Actuary
Retirement Services

Ronald A. Copes
Corporate Vice President
Community Relations

Pamela J. Delaney
Corporate Vice President
U.S. Insurance Group

Rodney J. Dillman
Corporate Vice President
Associate General Counsel and
Assistant Secretary

William B. Fisher
Corporate Vice President
Associate General Counsel

Jerome S. Golden
Corporate Vice President
Retirement Income Group

Robert F. Haran
Corporate Vice President
U.S. Insurance Group

Douglas J. Jangraw
Corporate Vice President and Actuary
Corporate Actuarial

Michael L. Kerley
Corporate Vice President
U.S. Insurance Group

Edward M. Kline
Corporate Vice President and
Treasurer

Debra A. Palermo
Corporate Vice President
Corporate Human Resources

William S. Silvanic
Corporate Vice President and Actuary
Retirement Services

Norman A. Smith
Corporate Vice President and
Controller

Ricky A. Swaye
Corporate Vice President
Corporate Services

V. Vanessa Williams
Corporate Vice President
Retirement Services

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Stuart H. Reese  
Chairman, President and  
Chief Executive Officer  
Massachusetts Mutual Life Insurance Company  
Springfield, Massachusetts  
Committees: Corporate Governance, Executive (Chair), Investment, Operations

James R. Birke  
Lead Director  
Chairman (2006)  
Massachusetts Mutual Life Insurance Company  
Springfield, Massachusetts  
Chairman, Resolute Partners LLC  
Village of Golf, Florida  
Committees: Corporate Governance, Executive, Investment (Chair), Operations

Roger G. Ackerman  
Chairman and  
Chief Executive Officer, Retired  
Corning Incorporated  
Corning, New York  
Committees: Corporate Governance, Executive, Operations

Gene Chao  
Chairman and Chief Executive Officer  
National Captioning Institute  
Vienna, Virginia  
Committees: Corporate Governance, Human Resources

James H. DeGraffenreidt, Jr.  
Chairman and Chief Executive Officer  
WGL Holdings, Inc.  
Washington, D.C.  
Committees: Audit, Corporate Governance

Patricia Díaz Dennis  
Senior Vice President and  
Assistant General Counsel  
AT&T  
San Antonio, Texas  
Committees: Human Resources, Investment

James L. Dunlap  
Vice Chairman, Retired  
Ocean Energy, Inc.  
Houston, Texas  
Committees: Audit, Human Resources

William B. Ellis  
Lecturer and Resident Fellow  
Yale University School of Forestry and Environmental Studies  
New Haven, Connecticut  
Chairman and Chief Executive Officer, Retired  
Northeast Utilities, Hartford, Connecticut  
Committees: Audit (Chair), Executive, Investment

Robert A. Esner  
Chairman and Chief Executive Officer  
Wyeth  
Madison, New Jersey  
Committees: Executive, Human Resources (Chair), Operations

Robert M. Furek  
President and  
Chief Executive Officer, Retired  
Heublein, Inc.  
Hartford, Connecticut  
Committees: Corporate Governance, Operations

Carol A. Leary  
President  
Bay Path College  
Longmeadow, Massachusetts  
Committees: Audit, Investment

William B. Marx, Jr.  
Senior Executive Vice President, Retired  
Lucent Technologies  
Murray Hill, New Jersey  
Committees: Corporate Governance, Executive, Operations (Chair)

John F. Maypole  
Managing Partner  
Peach State Real Estate Holding Company  
Toccoa, Georgia  
Committees: Corporate Governance, Operations

Marc Racicot  
President  
American Insurance Association  
Washington, D.C.  
Committees: Audit, Human Resources
Raleigh Lang (left) and Katheigh Degen, twin sisters who run their Kansas City, Missouri, business together, have been MassMutual financial professionals for more than 20 years.

Tom Carstens, a MMLISI investment advisor representative in New York City, has been affiliated with MassMutual for more than 16 years.

Three-year-old Abby, shown on our cover with her great-grandmother, is part of a Georgia family that has received generations of protection from MassMutual.

MassMutual Financial Group is a marketing designation (or fleet name) for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliates. Founded in 1851, MassMutual is a mutually owned financial protection, accumulation and income management company headquartered in Springfield, Massachusetts.

Financial professionals offer products and services where they are licensed to do so.

MassMutual is committed to providing equal opportunity for employment and advancement of all employees without regard to race, color, religion, creed, age, sex, marital status, sexual orientation, national origin, citizenship status, ancestry, veteran status, past or present history of mental disorder, mental retardation, learning disability or physical disability, including but not limited to blindness.

The company’s annual meeting is held each year on the second Wednesday of April at 2 p.m., at the home office in Springfield, Massachusetts, for the election of directors and the transaction of such other business as may properly come before the meeting.
To learn more about MassMutual, we invite you to visit our Web site at www.massmutual.com.

Michigan Mutual Financial Group 2006 Annual Report

About our cover: MassMutual has provided generations of protection for this Georgia family. Pictured here is policyholder and beneficiary Marie Hilliard, with her three-year-old great granddaughter, Abby.

We’ll help you get there™

MassMutual Financial Group 2006 Annual Report

LONG-TERM RELATIONSHIPS – INNOVATIVE SOLUTIONS

MassMutual Financial Group 2006 Annual Report

To learn more about MassMutual, we invite you to visit our Web site at www.massmutual.com.

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