MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATUTORY FINANCIAL STATEMENTS

As of June 30, 2014 and December 31, 2013, for the six months ended
June 30, 2014 and 2013 and for the year ended December 31, 2013
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condensed Consolidated Statutory Statements of Financial Position</td>
<td>2</td>
</tr>
<tr>
<td>Condensed Consolidated Statutory Statements of Income (Loss)</td>
<td>3</td>
</tr>
<tr>
<td>Condensed Consolidated Statutory Statements of Changes in Surplus</td>
<td>4</td>
</tr>
<tr>
<td>Condensed Consolidated Statutory Statements of Cash Flows</td>
<td>5</td>
</tr>
<tr>
<td>Notes to Condensed Consolidated Statutory Financial Statements:</td>
<td></td>
</tr>
<tr>
<td>1. Nature of operations</td>
<td>6</td>
</tr>
<tr>
<td>2. Summary of significant accounting policies</td>
<td>6</td>
</tr>
<tr>
<td>3. New accounting standards</td>
<td>7</td>
</tr>
<tr>
<td>4. Investments</td>
<td></td>
</tr>
<tr>
<td>a. Bonds</td>
<td>8</td>
</tr>
<tr>
<td>b. Common stocks - subsidiaries and affiliates</td>
<td>10</td>
</tr>
<tr>
<td>c. Mortgage loans</td>
<td>12</td>
</tr>
<tr>
<td>d. Net investment income</td>
<td>14</td>
</tr>
<tr>
<td>e. Net realized capital gains (losses)</td>
<td>15</td>
</tr>
<tr>
<td>f. Derivatives</td>
<td>16</td>
</tr>
<tr>
<td>5. Fair value of financial instruments</td>
<td>20</td>
</tr>
<tr>
<td>6. Fixed assets</td>
<td>24</td>
</tr>
<tr>
<td>7. Deferred and uncollected life insurance premium</td>
<td>24</td>
</tr>
<tr>
<td>8. Surplus notes</td>
<td>24</td>
</tr>
<tr>
<td>9. Related party transactions</td>
<td>25</td>
</tr>
<tr>
<td>10. Reinsurance</td>
<td>25</td>
</tr>
<tr>
<td>11. Policyholders’ liabilities</td>
<td>25</td>
</tr>
<tr>
<td>12. Debt</td>
<td>26</td>
</tr>
<tr>
<td>13. Employee benefit plans</td>
<td>26</td>
</tr>
<tr>
<td>14. Employee compensation plans</td>
<td>26</td>
</tr>
<tr>
<td>15. Federal income taxes</td>
<td>27</td>
</tr>
<tr>
<td>16. Transferable state tax credits</td>
<td>27</td>
</tr>
<tr>
<td>17. Business risks, commitments and contingencies</td>
<td>27</td>
</tr>
<tr>
<td>18. Withdrawal characteristics</td>
<td>30</td>
</tr>
<tr>
<td>19. Presentation of the Condensed Consolidated Statutory Statements of Cash Flows</td>
<td>31</td>
</tr>
<tr>
<td>20. Subsequent events</td>
<td>31</td>
</tr>
</tbody>
</table>
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

See notes to condensed consolidated statutory financial statements
MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF INCOME (LOSS)
(UNAUDITED)

See notes to condensed consolidated statutory financial statements
## MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
## CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF CHANGES IN SURPLUS
## (UNAUDITED)

### Six Months Ended
### June 30,

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus, beginning of year</td>
<td>$12,524</td>
<td>$12,687</td>
<td>$(163)</td>
<td>(1)%</td>
</tr>
<tr>
<td>Increase (decrease) due to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>385</td>
<td>(86)</td>
<td>471</td>
<td>548%</td>
</tr>
<tr>
<td>Change in net unrealized capital gains, net of tax</td>
<td>865</td>
<td>(301)</td>
<td>1,166</td>
<td>387%</td>
</tr>
<tr>
<td>Change in net unrealized foreign exchange capital losses and gains, net of tax</td>
<td>34</td>
<td>(59)</td>
<td>93</td>
<td>158%</td>
</tr>
<tr>
<td>Change in other net deferred income taxes</td>
<td>(48)</td>
<td>59</td>
<td>(107)</td>
<td>(181)%</td>
</tr>
<tr>
<td>Change in nonadmitted assets</td>
<td>12</td>
<td>8</td>
<td>4</td>
<td>50%</td>
</tr>
<tr>
<td>Change in reserve valuation basis</td>
<td>-</td>
<td>(31)</td>
<td>31</td>
<td>100%</td>
</tr>
<tr>
<td>Change in asset valuation reserve</td>
<td>(230)</td>
<td>(61)</td>
<td>(169)</td>
<td>(277)%</td>
</tr>
<tr>
<td>Prior period adjustments</td>
<td>(13)</td>
<td>34</td>
<td>(47)</td>
<td>(138)%</td>
</tr>
<tr>
<td>Change in minimum pension liability</td>
<td>-</td>
<td>44</td>
<td>(44)</td>
<td>(100)%</td>
</tr>
<tr>
<td>Other</td>
<td>36</td>
<td>-</td>
<td>36</td>
<td>NM</td>
</tr>
<tr>
<td>Net increase (decrease)</td>
<td>1,041</td>
<td>(393)</td>
<td>1,434</td>
<td>365%</td>
</tr>
<tr>
<td>Surplus, end of period</td>
<td>$13,565</td>
<td>$12,294</td>
<td>$1,271</td>
<td>10%</td>
</tr>
</tbody>
</table>

NM = not meaningful

See notes to condensed consolidated statutory financial statements
<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended June 30, 2014</th>
<th>Year Ended December 31, 2013</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>$9,363</td>
<td>$21,726</td>
</tr>
<tr>
<td>Net investment income</td>
<td>3,160</td>
<td>5,699</td>
</tr>
<tr>
<td>Benefit payments</td>
<td>(9,561)</td>
<td>(18,728)</td>
</tr>
<tr>
<td>Net transfers (to) from separate accounts</td>
<td>(57)</td>
<td>1,313</td>
</tr>
<tr>
<td>Commissions and other expenses</td>
<td>(555)</td>
<td>(650)</td>
</tr>
<tr>
<td>Dividends paid to policyholders</td>
<td>(675)</td>
<td>(1,377)</td>
</tr>
<tr>
<td>Federal and foreign income taxes</td>
<td>237</td>
<td>64</td>
</tr>
<tr>
<td>Net cash provided from operations</td>
<td>1,912</td>
<td>8,047</td>
</tr>
<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>7,741</td>
<td>21,074</td>
</tr>
<tr>
<td>Preferred and common stocks - unaffiliated</td>
<td>129</td>
<td>688</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>896</td>
<td>2,365</td>
</tr>
<tr>
<td>Real estate</td>
<td>12</td>
<td>133</td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>899</td>
<td>1,465</td>
</tr>
<tr>
<td>Common stocks - affiliated</td>
<td>293</td>
<td>137</td>
</tr>
<tr>
<td>Derivatives</td>
<td>244</td>
<td>(639)</td>
</tr>
<tr>
<td>Other</td>
<td>(223)</td>
<td>(290)</td>
</tr>
<tr>
<td>Total investment proceeds</td>
<td>9,991</td>
<td>24,933</td>
</tr>
<tr>
<td>Cost of investments acquired:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>(10,730)</td>
<td>(31,126)</td>
</tr>
<tr>
<td>Preferred and common stocks - unaffiliated</td>
<td>(294)</td>
<td>(567)</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>(2,059)</td>
<td>(5,010)</td>
</tr>
<tr>
<td>Real estate</td>
<td>(193)</td>
<td>111</td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>(623)</td>
<td>(2,129)</td>
</tr>
<tr>
<td>Common stocks - affiliated</td>
<td>(493)</td>
<td>(740)</td>
</tr>
<tr>
<td>Derivatives</td>
<td>(151)</td>
<td>(196)</td>
</tr>
<tr>
<td>Other</td>
<td>81</td>
<td>494</td>
</tr>
<tr>
<td>Total investments acquired</td>
<td>(14,462)</td>
<td>(39,163)</td>
</tr>
<tr>
<td>Net increase in policy loans</td>
<td>(116)</td>
<td>(563)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(4,587)</td>
<td>(14,793)</td>
</tr>
<tr>
<td><strong>Cash from financing and other sources:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net deposits (withdrawals) on deposit-type contracts</td>
<td>44</td>
<td>(144)</td>
</tr>
<tr>
<td>Change in repurchase and reverse repurchase agreements</td>
<td>1,431</td>
<td>(346)</td>
</tr>
<tr>
<td>Change in derivative collateral</td>
<td>280</td>
<td>(798)</td>
</tr>
<tr>
<td>Deposits for policyholders' reserves related to reinsurance agreement</td>
<td>-</td>
<td>5,298</td>
</tr>
<tr>
<td>Liabilities for deposit-type contracts related to reinsurance agreement</td>
<td>-</td>
<td>3,885</td>
</tr>
<tr>
<td>Other cash used</td>
<td>(423)</td>
<td>(55)</td>
</tr>
<tr>
<td>Net cash provided from financing and other sources</td>
<td>1,332</td>
<td>7,840</td>
</tr>
<tr>
<td>Net change in cash, cash equivalents and short-term investments</td>
<td>(1,343)</td>
<td>1,094</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments, beginning of year</td>
<td>4,504</td>
<td>3,410</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments, end of period</td>
<td>$3,161</td>
<td>$4,504</td>
</tr>
</tbody>
</table>

See notes to condensed consolidated statutory financial statements
1. **Nature of operations**

Massachusetts Mutual Life Insurance Company (MassMutual) and its subsidiaries provide life insurance, disability income insurance, long-term care insurance, annuities, retirement 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**

   a. **Basis of presentation**

   The condensed consolidated statutory financial statements include the accounts of MassMutual and its wholly-owned United States of America (U.S.) domiciled life insurance subsidiary, C.M. Life Insurance Company, and its wholly-owned subsidiary, MML Bay State Life Insurance Company (collectively, the Company). All intercompany transactions and balances for these consolidated entities have been eliminated. Other subsidiaries and affiliates are accounted for under the equity method in accordance with statutory accounting principles. Statutory financial statements filed with regulatory authorities are not presented on a consolidated basis.

   The condensed consolidated statutory financial statements and notes as of June 30, 2014, and for the six months ended June 30, 2014 and 2013, are unaudited. These condensed consolidated statutory financial statements, in the opinion of management, reflect the fair presentation of the financial position, results of operations, changes in surplus and cash flows for the interim periods. These condensed consolidated statutory financial statements and notes should be read in conjunction with the consolidated statutory financial statements and notes thereto included in the Company’s 2013 audited year end financial statements as these condensed consolidated statutory financial statements disclose only significant changes from year end 2013. The results of operations for the interim periods should not be considered indicative of results to be expected for the full year. The Condensed Consolidated Statutory Statements of Financial Position as of December 31, 2013 and the Condensed Consolidated Statutory Statements of Cash Flows for the year ended December 31, 2013 have been derived from the audited consolidated statutory financial statements at that date, but do not include all of the information and footnotes required by statutory accounting practices for complete financial statements.

   For the full description of accounting policies, see Note 2, "Summary of significant accounting policies" of Notes to Consolidated Statutory Financial Statements included in the Company’s 2013 audited consolidated year end financial statements.
b. Corrections of errors and reclassifications

Under statutory accounting principles, corrections of prior year errors are recorded in current year surplus on a pretax basis with any associated tax impact reported through earnings. For the six months ended June 30, 2014, the Company recorded a net decrease to surplus of $13 million primarily related to policyholders’ reserves.

The following summarizes corrections of prior year errors of the six months ended June 30, 2013:

<table>
<thead>
<tr>
<th>Increase (Decrease) to:</th>
<th>Correction of Asset</th>
<th>(In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Year</td>
<td>Current Year</td>
<td>Income</td>
</tr>
<tr>
<td>Policyholders' reserves</td>
<td>$47</td>
<td>$47</td>
</tr>
<tr>
<td>Premium income (ceded)</td>
<td>(15)</td>
<td>(15)</td>
</tr>
<tr>
<td>Other invested assets</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>$34</td>
<td>$34</td>
</tr>
</tbody>
</table>

3. New accounting standards

a. Adoption of new accounting standards

In December 2013, the National Association of Insurance Commissioners (NAIC) issued Statement of Statutory Accounting Principles (SSAP) No. 105, “Working Capital Finance Investments,” which establishes statutory accounting principles for working capital finance investments. This statement also amends SSAP No. 20, “Nonadmitted Assets,” to allow working capital finance investments as admitted assets to the extent they conform to the requirements of SSAP No. 105. This new guidance was effective January 1, 2014, and did not have an impact on the Company’s financial statements.

In December 2013, the NAIC adopted modifications to SSAP No. 26, “Bonds, Excluding Loan-Backed and Structured Securities,” to clarify the amortization requirements for bonds with make-whole call provisions and bonds that are continuously callable. These revisions do not allow insurers to consider make-whole call provisions in determining the timeframe for amortizing bond premium or discount unless information is known by the reporting entity indicating that the issuer is expected to invoke the provision. These clarifying changes were effective January 1, 2014, and did not have a significant impact on the Company’s financial statements.
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></th>
<th>Gross Carrying Value</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agencies</td>
<td>$7,276</td>
<td>$770</td>
<td>4</td>
<td>$8,042</td>
</tr>
<tr>
<td>All other governments</td>
<td>372</td>
<td>39</td>
<td>4</td>
<td>407</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>2,170</td>
<td>157</td>
<td>7</td>
<td>2,320</td>
</tr>
<tr>
<td>Special revenue</td>
<td>4,634</td>
<td>738</td>
<td>8</td>
<td>5,364</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>55,767</td>
<td>3,606</td>
<td>251</td>
<td>59,122</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>5,104</td>
<td>388</td>
<td>4</td>
<td>5,488</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$75,323</strong></td>
<td><strong>$5,698</strong></td>
<td><strong>$278</strong></td>
<td><strong>$80,743</strong></td>
</tr>
</tbody>
</table>

*Note: The unrealized losses exclude $24 million of losses embedded in the carrying value, which include $23 million from NAIC Category 6 bonds and $1 million from residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS) whose ratings were obtained from outside modelers.*

<table>
<thead>
<tr>
<th></th>
<th>Gross Carrying Value</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. government and agencies</td>
<td>$6,895</td>
<td>$490</td>
<td>53</td>
<td>$7,332</td>
</tr>
<tr>
<td>All other governments</td>
<td>214</td>
<td>24</td>
<td>8</td>
<td>230</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>1,991</td>
<td>67</td>
<td>60</td>
<td>1,998</td>
</tr>
<tr>
<td>Special revenue</td>
<td>4,581</td>
<td>451</td>
<td>26</td>
<td>5,006</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>52,565</td>
<td>2,518</td>
<td>964</td>
<td>54,119</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>5,790</td>
<td>342</td>
<td>22</td>
<td>6,110</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$72,036</strong></td>
<td><strong>$3,892</strong></td>
<td><strong>$1,133</strong></td>
<td><strong>$74,795</strong></td>
</tr>
</tbody>
</table>

*Note: The unrealized losses exclude $41 million of losses embedded in the carrying value, which include $39 million from NAIC Category 6 bonds and $2 million from RMBS and CMBS whose ratings were obtained from outside modelers.*
Sales proceeds and related gross realized capital gains (losses) from bonds were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td>2014</td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sales</td>
<td>$2,275</td>
<td>$4,053</td>
</tr>
<tr>
<td>Gross realized capital gains from sales</td>
<td>151</td>
<td>107</td>
</tr>
<tr>
<td>Gross realized capital losses from sales</td>
<td>(23)</td>
<td>(119)</td>
</tr>
</tbody>
</table>

The following is a summary 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:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2014</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less Than 12 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12 Months or Longer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
<td>Issuers</td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
</tr>
<tr>
<td>U.S. government and agencies</td>
<td>$ -</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>188</td>
</tr>
<tr>
<td>All other governments</td>
<td>31</td>
<td>1</td>
<td>4</td>
<td>64</td>
<td>3</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>192</td>
<td>7</td>
</tr>
<tr>
<td>Special revenue</td>
<td>38</td>
<td>1</td>
<td>40</td>
<td>165</td>
<td>6</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>3,973</td>
<td>50</td>
<td>482</td>
<td>7,132</td>
<td>205</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>575</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>$4,042</td>
<td>$52</td>
<td>526</td>
<td>$8,316</td>
<td>$250</td>
</tr>
</tbody>
</table>

**Note:** The unrealized losses include $24 million of losses embedded in the carrying value, which include $23 million from NAIC Category 6 bonds and $1 million from RMBS and CMBS whose ratings were obtained from outside modelers.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2013</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less Than 12 Months</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12 Months or Longer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
<td>Issuers</td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
</tr>
<tr>
<td>U.S. government and agencies</td>
<td>$1,820</td>
<td>$51</td>
<td>7</td>
<td>$53</td>
<td>$3</td>
</tr>
<tr>
<td>All other governments</td>
<td>48</td>
<td>5</td>
<td>27</td>
<td>29</td>
<td>4</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>722</td>
<td>54</td>
<td>49</td>
<td>34</td>
<td>6</td>
</tr>
<tr>
<td>Special revenue</td>
<td>589</td>
<td>21</td>
<td>169</td>
<td>72</td>
<td>5</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>17,064</td>
<td>749</td>
<td>1,320</td>
<td>2,591</td>
<td>217</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>189</td>
<td>4</td>
<td>9</td>
<td>706</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>$20,432</td>
<td>$884</td>
<td>1,581</td>
<td>$3,485</td>
<td>$290</td>
</tr>
</tbody>
</table>

**Note:** The unrealized losses include $41 million of losses embedded in the carrying value, which include $39 million from NAIC Category 6 bonds and $2 million from RMBS and CMBS whose ratings were obtained from outside modelers.
Based on the Company’s policies, as of June 30, 2014 and December 31, 2013, the Company has not deemed these unrealized losses to be other than temporary because the investment’s carrying value is expected to be realized based on the Company's analysis and the Company has the ability and intent not to sell these investments until recovery, which may be at maturity.

As of June 30, 2014, investments in structured and loan-backed securities that had unrealized losses, which were not recognized in earnings, had a fair value of $3,925 million. Securities in an unrealized loss position for less than 12 months had a fair value of $2,006 million and unrealized losses of $32 million. Securities in an unrealized loss position for greater than 12 months had a fair value of $1,919 million and unrealized losses of $54 million. These securities were primarily categorized as industrial and miscellaneous or parent, subsidiaries and affiliates.

As of December 31, 2013, investments in structured and loan-backed securities that had unrealized losses, which were not recognized in earnings, had a fair value of $4,964 million. Securities in an unrealized loss position for less than 12 months had a fair value of $3,685 million and unrealized losses of $76 million. Securities in an unrealized loss position for greater than 12 months had a fair value of $1,279 million and unrealized losses of $72 million. These securities were primarily categorized as industrial and miscellaneous or parent, subsidiaries and affiliates.

In the course of the Company’s investment management activities, securities may be sold and reacquired within 30 days of the sale date to enhance the Company’s yield on its investment portfolio. The Company did not sell any securities with the NAIC Designation 3 or below for the six months ended June 30, 2014 or the year ended December 31, 2013, that were reacquired within 30 days of the sale date.

**Residential mortgage-backed exposure**

RMBS are included in the U.S. government, special revenue, and industrial and miscellaneous bond categories. The Alt-A category includes option adjustable rate mortgages and the subprime category includes 'scratch and dent' or reperforming pools, high loan-to-value pools, and pools where the borrowers have very impaired credit but the average loan-to-value is low, typically 70% or below. In identifying Alt-A and subprime exposure, management used a combination of qualitative and quantitative factors, including FICO scores and loan-to-value ratios.

As of June 30, 2014 and December 31, 2013, RMBS had a total carrying value of $2,598 million and $2,963 million and a fair value of $2,955 million and $3,198 million, of which approximately 23% and 25%, based on carrying value, was classified as Alt-A, respectively. As of June 30, 2014 and December 31, 2013, Alt-A and subprime RMBS had a total carrying value of $1,174 million and $1,378 million and a fair value of $1,392 million and $1,587 million, respectively.

**b. Common stocks - subsidiaries and affiliates**

Common stocks of unconsolidated subsidiaries, primarily MassMutual Holding LLC (MMHLLC), are accounted for using the statutory equity method. The Company accounts for the value of MMHLLC at its underlying U.S. generally accepted accounting principles (GAAP) equity value adjusted to remove certain nonadmitted and intangible assets, as well as a portion of its noncontrolling interests (NCI) and appropriated retained earnings (ARE), after consideration of MMHLLC's fair value and the Company's capital levels. The Commonwealth of Massachusetts Division of Insurance has affirmed the statutory recognition of the Company’s application of the NCI guidelines in MMHLLC’s statutory carrying value. However, the Company has limited this recognition to $2,255 million and $2,157 million as of June 30, 2014 and December 31, 2013, respectively. The current fair value of MMHLLC remains significantly greater than its statutory carrying amount.

MassMutual received $50 million of cash dividends, recorded in net investment income, from MMHLLC through the six months ended June 30, 2014. No dividend was received from MMHLLC through the six months ended June 30, 2013.
MMHLCC’s subsidiaries are involved in litigation and investigations arising in the ordinary course of their business, which seeks both compensatory, and punitive damages and equitable remedies. Although the Company is not aware of any actions or allegations that reasonably should give rise to a material adverse impact to the Company’s Condensed Consolidated Statutory Statements of Financial Position or liquidity, the outcome of litigation cannot be foreseen with certainty. It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company’s Condensed Consolidated Statutory Statements of Financial Position or liquidity. However, the outcome of a particular proceeding may be material to the Company’s Condensed Consolidated Statutory Statements of Changes in Surplus for a particular period depending upon, among other factors, the size of the loss or liability and the level of the Company’s changes in surplus for the period.

On April 16, 2010, a lawsuit was filed in New York state court against OppenheimerFunds, Inc. (OFI), its subsidiary HarbourView Asset Management Corporation (HVAMC) and AA Ardvark IV Funding Limited (AA Ardvark IV) in connection with the investment made by TSL (USA) Inc., an affiliate of National Australia Bank Limited, in AA Ardvark IV. The complaint alleges breach of contract, breach of the covenant of good faith and fair dealing, gross negligence, unjust enrichment and conversion. The complaint sought compensatory and punitive damages, along with attorney fees. The court has dismissed certain equitable claims against OFI and HVAMC, leaving only the claims for breach of contract. Plaintiffs filed an amended complaint with additional contractual claims. In October 2011, defendants moved to dismiss the complaint to the extent it sought damages in the form of a return of the plaintiffs’ full principal investment. In December 2011, plaintiffs filed a motion for partial summary judgment. In January 2012, the court granted, in part, the defendants’ motion to dismiss and denied plaintiffs’ motion for partial summary judgment. In April 2012, plaintiffs filed a motion for leave to file a third amended complaint, which added a fraud claim and additional allegations in support of plaintiffs’ contract claims. In August 2012, plaintiffs and defendants separately filed motions for partial summary judgment. In April 2013, the court (i) denied plaintiffs’ motion for summary judgment; (ii) granted defendants’ motion of summary judgment, dismissing plaintiffs’ fraud claim with prejudice and dismissing their contract claim without prejudice and (iii) granted plaintiffs leave to replead to assert a cause of action for specific performance within 30 days. In May 2013, the plaintiffs filed a notice of appeal of the court’s April 2013 order of dismissal. In January 2014, the appellate court affirmed the lower court’s dismissal order. In March 2014, the parties executed an omnibus release and settlement agreement and filed a stipulation of discontinuance dismissing the lawsuit with prejudice. The settlement did not have an effect on the Company’s financial statements.

On July 15, 2011, a lawsuit was filed in New York State Supreme Court against OFI, HVAMC and AA Ardvark I Funding Limited (AA Ardvark I), in connection with investments made by TSL (USA) Inc. and other investors in AA Ardvark I. The complaint alleges breach of contract against each of the defendants and seeks compensatory damages and costs and disbursements, including attorney fees. In October 2011, defendants moved to dismiss the complaint to the extent it seeks damages in the form of a return of the plaintiffs’ full principal investment. In January 2012, the court granted in part defendants’ motion to dismiss. In July 2012, the parties participated in a mediation of their dispute, which did not result in a settlement. In March 2013, plaintiffs filed an amended complaint, which added a fraud claim and alleged additional facts in support of plaintiffs’ contract claim. In March 2014, the parties executed an omnibus release and settlement agreement and filed a stipulation of discontinuance dismissing the lawsuit with prejudice. The settlement did not have an effect on the Company’s financial statements.
c. **Mortgage loans**

Mortgage loans are comprised of commercial mortgage loans and residential mortgage loans. The Company’s commercial mortgage loans primarily finance various types of real estate properties throughout the U.S., the United Kingdom and Canada. The Company holds commercial mortgage loans for which it is the primary lender and mezzanine loans that are subordinate to senior secured first liens. Residential mortgage loans are seasoned pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration (FHA) and Veterans Administration (VA) guarantees.

The carrying value and fair value of the Company's mortgage loans were as follows:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2014</th>
<th>December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Carrying Value</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Commercial mortgage loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary lender</td>
<td>$ 16,322</td>
<td>$ 16,727</td>
</tr>
<tr>
<td>Mezzanine loans</td>
<td>38</td>
<td>40</td>
</tr>
<tr>
<td>Total commercial mortgage loans</td>
<td>16,360</td>
<td>16,767</td>
</tr>
<tr>
<td>Residential mortgage loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FHA insured and VA guaranteed</td>
<td>2,135</td>
<td>2,089</td>
</tr>
<tr>
<td>Other residential loans</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Total residential mortgage loans</td>
<td>2,148</td>
<td>2,102</td>
</tr>
<tr>
<td>Total mortgage loans</td>
<td>$ 18,508</td>
<td>$ 18,869</td>
</tr>
</tbody>
</table>

The following presents a summary of the Company's impaired mortgage loans:

As of June 30, 2014, the Company had no impaired mortgage loans with or without a valuation allowance.

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Unpaid</td>
</tr>
<tr>
<td></td>
<td>Carrying Value</td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With allowance recorded:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial mortgage loans:</td>
<td></td>
</tr>
<tr>
<td>Primary lender</td>
<td>$ 92</td>
</tr>
<tr>
<td>Mezzanine loans</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>With no allowance recorded:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial mortgage loans:</td>
<td></td>
</tr>
<tr>
<td>Mezzanine loans</td>
<td>-</td>
</tr>
<tr>
<td>Total impaired commercial mortgage loans</td>
<td>$ 94</td>
</tr>
</tbody>
</table>
The following presents changes in the valuation allowance recorded for the Company’s mortgage loans:

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended June 30,</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2014</td>
<td>2013</td>
<td>2014</td>
<td>2013</td>
<td>2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beginning balance</td>
<td>$ (9)</td>
<td>$ -</td>
<td>$ (9)</td>
<td>$ (5)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Additions</td>
<td>(2)</td>
<td>-</td>
<td>(2)</td>
<td>(23)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Decreases</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Write-downs</td>
<td>10</td>
<td>-</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ending balance</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ (28)</td>
</tr>
</tbody>
</table>
d.  Net investment income

Net investment income was comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Bonds</td>
<td>$1,703</td>
<td>$1,685</td>
<td></td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>12</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>54</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>30</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>436</td>
<td>403</td>
<td></td>
</tr>
<tr>
<td>Policy loans</td>
<td>339</td>
<td>337</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>98</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>756</td>
<td>311</td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>134</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Cash, cash</td>
<td>6</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>equivalents</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>3,570</td>
<td>2,965</td>
</tr>
<tr>
<td>Amortization of the IMR</td>
<td>113</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td>Investment expenses</td>
<td>(290)</td>
<td>(264)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Net investment</td>
<td>$3,393</td>
<td>$2,810</td>
</tr>
</tbody>
</table>

\(^{(i)}\text{During 2014, the Company received distributions from certain affiliated partnerships that generated net investment income. These distributions were related to the partnerships' leasing and sale of certain properties.}\)
e. **Net realized capital gains (losses)**

Net realized capital gains (losses) including other-than-temporary impairment(s) (OTTI) were comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>$107</td>
<td>(36)</td>
<td></td>
</tr>
<tr>
<td>Preferred stocks</td>
<td></td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Common stocks -</td>
<td>8</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>subsidiaries and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>affiliates</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stocks -</td>
<td>2</td>
<td>34</td>
<td></td>
</tr>
<tr>
<td>unaffiliated</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>(10)</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td>(6)</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>14</td>
<td>(24)</td>
<td></td>
</tr>
<tr>
<td>Derivatives</td>
<td>132</td>
<td>(497)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(45)</td>
<td>(35)</td>
<td></td>
</tr>
</tbody>
</table>

Net realized capital gains (losses) before federal and state taxes and deferral to the IMR

Net realized capital gains (losses) before deferral to the IMR

Net after tax (gains) losses deferred to the IMR

Net realized capital losses

The interest maintenance reserve (IMR) liability balance was $588 million as of June 30, 2014 and $491 million as of December 31, 2013 and was included in other liabilities on the Condensed Consolidated Statutory Statements of Financial Position.

OTTI, included in the net realized capital losses above, consisted of the following:

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>($21)</td>
<td>($24)</td>
<td></td>
</tr>
<tr>
<td>Common stocks</td>
<td>(3)</td>
<td>(2)</td>
<td></td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>(10)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Partnerships and LLCs</td>
<td>(26)</td>
<td>(23)</td>
<td></td>
</tr>
<tr>
<td>Total OTTI</td>
<td>($60)</td>
<td>($49)</td>
<td></td>
</tr>
</tbody>
</table>

For the six months ended June 30, 2014 and 2013, the Company recognized $14 million and $12 million, respectively, of OTTI on structured and loan-backed securities primarily due to the present value of expected cash flows being less than the amortized cost.
The Company uses derivative financial instruments in the normal course of business to manage risks, primarily to reduce currency, 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 actual instrument or when the simulated instruments are unavailable. Synthetic assets can be created either to hedge and reduce the Company's credit exposure or to create an investment in a particular asset. The Company held synthetic assets with a net notional amount of $6,182 million as of June 30, 2014 and $4,228 million as of December 31, 2013. Of this amount, $5,222 million as of June 30, 2014 and $3,068 million as of December 31, 2013, were considered replicated asset transactions as defined under statutory accounting principles as the pairing of a long derivative contract with a cash instrument held. 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 contracts and financial futures. Investment risk is assessed on a portfolio basis and individual derivative financial instruments are not generally designated in hedging relationships; therefore, as allowed by accounting rules, the Company intentionally has not applied hedge accounting.

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 nonperformance by counterparties to derivative financial instruments. To minimize credit risk, the Company and its derivative counterparties generally enter into master agreements that require collateral to be posted in the amount owed under each transaction, subject to minimum transfer amounts. These same master agreements allow for contracts in a positive position, in which 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. Net collateral pledged by the counterparties was $1,270 million as of June 30, 2014 and $739 million as of December 31, 2013. In the event of default the full market value exposure at risk in a net gain position, net of offsets and collateral, was $68 million as of June 30, 2014 and $59 million as of December 31, 2013. The statutory reporting rules define net amount at risk as net collateral pledged and statement values excluding accrued interest. The net amount at risk was $291 million as of June 30, 2014 and $358 million as of December 31, 2013. The Company regularly monitors counterparty credit ratings and exposures, derivative 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 summarizes the carrying values and notional amounts of the Company’s derivative financial instruments:

### June 30, 2014

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying</strong></td>
<td><strong>Notional</strong></td>
</tr>
<tr>
<td>Value</td>
<td>Amount</td>
</tr>
<tr>
<td>(In Millions)</td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$6,430</td>
</tr>
<tr>
<td>Options</td>
<td>288</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>90</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>10</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>22</td>
</tr>
<tr>
<td>Financial futures - long positions</td>
<td>-</td>
</tr>
<tr>
<td>Financial futures - short positions</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,840</td>
</tr>
</tbody>
</table>

### December 31, 2013

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying</strong></td>
<td><strong>Notional</strong></td>
</tr>
<tr>
<td>Value</td>
<td>Amount</td>
</tr>
<tr>
<td>(In Millions)</td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$6,191</td>
</tr>
<tr>
<td>Options</td>
<td>231</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>88</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>13</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>13</td>
</tr>
<tr>
<td>Financial futures - long positions</td>
<td>-</td>
</tr>
<tr>
<td>Financial futures - short positions</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$6,536</td>
</tr>
</tbody>
</table>

In most cases, the notional amounts are not a measure of the Company’s credit exposure. The exceptions to this are credit default swaps that are in the form of a replicated asset and mortgage-backed forwards. In the event of default, the Company is fully exposed to the notional amounts of $2,723 million as of June 30, 2014 and $2,398 million as of December 31, 2013. Collateral is exchanged for all derivative types except mortgage-backed forwards. For all other contracts, the collateral 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 or other indices.

The weighted average fair value of outstanding derivative financial instrument assets was $6,640 million for the six months ended June 30, 2014 and $8,429 million for the six months ended June 30, 2013. The weighted average fair value of outstanding derivative financial instrument liabilities was $4,719 million for the six months ended June 30, 2014 and $5,932 million for the six months ended June 30, 2013.
The following summarizes the Company’s net realized gains (losses) on closed contracts and change in net unrealized gains (losses) related to market fluctuations on open contracts by derivative type:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Realized</td>
<td>Change In Net</td>
</tr>
<tr>
<td></td>
<td>Gains (Losses)</td>
<td>Unrealized Gains (Losses)</td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>$(61)</td>
<td>$356</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>(4)</td>
<td>(36)</td>
</tr>
<tr>
<td>Options</td>
<td>(72)</td>
<td>30</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>(5)</td>
<td>13</td>
</tr>
<tr>
<td>Financial futures - long positions</td>
<td>332</td>
<td>-</td>
</tr>
<tr>
<td>Financial futures - short positions</td>
<td>(68)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>$132</td>
<td>$364</td>
</tr>
</tbody>
</table>
The following summarizes gross and net information of derivative assets and liabilities, along with collateral posted in connection with master netting agreements:

<table>
<thead>
<tr>
<th></th>
<th>Gross Due &amp; Amounts</th>
<th>Collateral Net Posted</th>
<th>Net Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>June 30, 2014</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative assets</td>
<td>$6,840</td>
<td>$697</td>
<td>$3,993</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>4,726</td>
<td>1,329</td>
<td>(3,544)</td>
</tr>
<tr>
<td>Net</td>
<td>$2,114</td>
<td>$(632)</td>
<td>-</td>
</tr>
<tr>
<td><strong>December 31, 2013</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative assets</td>
<td>$6,536</td>
<td>$644</td>
<td>(4,292)</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>4,822</td>
<td>1,246</td>
<td>(4,292)</td>
</tr>
<tr>
<td>Net</td>
<td>$1,714</td>
<td>$(602)</td>
<td>-</td>
</tr>
</tbody>
</table>
5. **Fair value of financial instruments**

The following presents a summary of the carrying values and fair values of the Company's financial instruments:

<table>
<thead>
<tr>
<th>Financial assets:</th>
<th>June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying Value</strong></td>
<td><strong>Fair Value</strong></td>
</tr>
<tr>
<td>(In Millions)</td>
<td>(In Millions)</td>
</tr>
<tr>
<td><strong>Bonds:</strong></td>
<td></td>
</tr>
<tr>
<td>U. S. government and agencies</td>
<td>$7,276</td>
</tr>
<tr>
<td>All other governments</td>
<td>372</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>2,170</td>
</tr>
<tr>
<td>Special revenue</td>
<td>4,634</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>55,767</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>5,104</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>526</td>
</tr>
<tr>
<td>Common stocks - unaffiliated</td>
<td>1,164</td>
</tr>
<tr>
<td>Common stocks - subsidiaries and affiliates</td>
<td>1,123</td>
</tr>
<tr>
<td>Mortgage loans - commercial</td>
<td>16,360</td>
</tr>
<tr>
<td>Mortgage loans - residential</td>
<td>2,148</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>3,161</td>
</tr>
<tr>
<td>Separate account assets</td>
<td>66,125</td>
</tr>
<tr>
<td><strong>Derivatives:</strong></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>6,430</td>
</tr>
<tr>
<td>Options</td>
<td>288</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>90</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>10</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>22</td>
</tr>
<tr>
<td><strong>Financial liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Commercial paper</td>
<td>250</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>5,105</td>
</tr>
<tr>
<td>Guaranteed investment contracts</td>
<td>4,127</td>
</tr>
<tr>
<td>Group annuity contracts and other deposits</td>
<td>16,836</td>
</tr>
<tr>
<td>Individual annuity contracts</td>
<td>9,486</td>
</tr>
<tr>
<td>Supplementary contracts</td>
<td>1,089</td>
</tr>
<tr>
<td><strong>Derivatives:</strong></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>4,510</td>
</tr>
<tr>
<td>Options</td>
<td>1</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>179</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>26</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>10</td>
</tr>
</tbody>
</table>

(1) Common stocks - subsidiaries and affiliates do not include MMHLLC, which had a statutory carrying value of $4,968 million.

The use of different assumptions or valuation methodologies may have a material impact on the estimated fair value amounts.
<table>
<thead>
<tr>
<th>Description</th>
<th>Carrying Value (In Millions)</th>
<th>Fair Value (In Millions)</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U. S. government and agencies</td>
<td>6,895</td>
<td>$7,332</td>
<td>-</td>
<td>$7,322</td>
<td>$10</td>
</tr>
<tr>
<td>All other governments</td>
<td>214</td>
<td>230</td>
<td>-</td>
<td>200</td>
<td>30</td>
</tr>
<tr>
<td>States, territories and possessions</td>
<td>1,991</td>
<td>1,998</td>
<td>-</td>
<td>1,988</td>
<td>10</td>
</tr>
<tr>
<td>Special revenue</td>
<td>4,581</td>
<td>5,006</td>
<td>-</td>
<td>5,006</td>
<td>-</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>52,565</td>
<td>54,119</td>
<td>-</td>
<td>35,809</td>
<td>18,310</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>5,790</td>
<td>6,110</td>
<td>-</td>
<td>1,676</td>
<td>4,434</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>520</td>
<td>537</td>
<td>13</td>
<td>88</td>
<td>436</td>
</tr>
<tr>
<td>Common stocks - unaffiliated</td>
<td>931</td>
<td>931</td>
<td>321</td>
<td>424</td>
<td>186</td>
</tr>
<tr>
<td>Common stocks - subsidiaries and affiliates**(1)**</td>
<td>886</td>
<td>886</td>
<td>309</td>
<td>210</td>
<td>367</td>
</tr>
<tr>
<td>Mortgage loans - commercial</td>
<td>15,309</td>
<td>15,456</td>
<td>-</td>
<td>-</td>
<td>15,456</td>
</tr>
<tr>
<td>Mortgage loans - residential</td>
<td>2,022</td>
<td>1,961</td>
<td>-</td>
<td>-</td>
<td>1,961</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>4,504</td>
<td>4,504</td>
<td>492</td>
<td>4,012</td>
<td>-</td>
</tr>
<tr>
<td>Separate account assets</td>
<td>64,478</td>
<td>64,494</td>
<td>41,707</td>
<td>22,273</td>
<td>514</td>
</tr>
<tr>
<td>Derivatives:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>6,191</td>
<td>6,191</td>
<td>-</td>
<td>6,191</td>
<td>-</td>
</tr>
<tr>
<td>Options</td>
<td>231</td>
<td>231</td>
<td>-</td>
<td>231</td>
<td>-</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>88</td>
<td>88</td>
<td>-</td>
<td>88</td>
<td>-</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>13</td>
<td>13</td>
<td>-</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>13</td>
<td>22</td>
<td>-</td>
<td>22</td>
<td>-</td>
</tr>
<tr>
<td><strong>Financial liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial paper</td>
<td>250</td>
<td>250</td>
<td>-</td>
<td>250</td>
<td>-</td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>3,674</td>
<td>3,674</td>
<td>-</td>
<td>3,674</td>
<td>-</td>
</tr>
<tr>
<td>Guaranteed investment contracts</td>
<td>4,028</td>
<td>4,067</td>
<td>-</td>
<td>-</td>
<td>4,067</td>
</tr>
<tr>
<td>Group annuity contracts and other deposits</td>
<td>17,267</td>
<td>18,603</td>
<td>-</td>
<td>-</td>
<td>18,603</td>
</tr>
<tr>
<td>Individual annuity contracts</td>
<td>9,480</td>
<td>10,396</td>
<td>-</td>
<td>-</td>
<td>10,396</td>
</tr>
<tr>
<td>Supplementary contracts</td>
<td>1,079</td>
<td>1,081</td>
<td>-</td>
<td>-</td>
<td>1,081</td>
</tr>
<tr>
<td>Derivatives:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>4,626</td>
<td>5,024</td>
<td>-</td>
<td>5,024</td>
<td>-</td>
</tr>
<tr>
<td>Options</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>140</td>
<td>140</td>
<td>-</td>
<td>140</td>
<td>-</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>42</td>
<td>42</td>
<td>-</td>
<td>42</td>
<td>-</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>13</td>
<td>13</td>
<td>-</td>
<td>13</td>
<td>-</td>
</tr>
</tbody>
</table>

**(1)**Common stocks - subsidiaries and affiliates do not include MMHLLC, which had a statutory carrying value of $4,491 million.
For the six months ended June 30, 2014, there were no significant changes to the Company's valuation methodologies.

The following presents the Company's fair value hierarchy for assets and liabilities that are carried at fair value:

<table>
<thead>
<tr>
<th>June 30, 2014</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>$ -</td>
<td>$ 8</td>
<td>$ 8</td>
<td>$ 16</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>-</td>
<td>120</td>
<td>-</td>
<td>120</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Common stocks - unaffiliated</td>
<td>489</td>
<td>484</td>
<td>191</td>
<td>1,164</td>
</tr>
<tr>
<td>Common stocks - subsidiaries and affiliates&lt;sup&gt;1&lt;/sup&gt;</td>
<td>523</td>
<td>228</td>
<td>372</td>
<td>1,123</td>
</tr>
<tr>
<td>Separate account assets&lt;sup&gt;2&lt;/sup&gt;</td>
<td>42,910</td>
<td>21,605</td>
<td>519</td>
<td>65,034</td>
</tr>
<tr>
<td>Derivatives:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>-</td>
<td>6,430</td>
<td>-</td>
<td>6,430</td>
</tr>
<tr>
<td>Options</td>
<td>-</td>
<td>288</td>
<td>-</td>
<td>288</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>-</td>
<td>90</td>
<td>-</td>
<td>90</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>-</td>
<td>14</td>
<td>-</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total financial assets carried at fair value</strong></td>
<td>$ 43,923</td>
<td>$ 29,277</td>
<td>$ 1,091</td>
<td>$ 74,291</td>
</tr>
<tr>
<td><strong>Financial liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>$ -</td>
<td>$ 5,105</td>
<td>$ -</td>
<td>$ 5,105</td>
</tr>
<tr>
<td>Derivatives:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>-</td>
<td>4,510</td>
<td>-</td>
<td>4,510</td>
</tr>
<tr>
<td>Options</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>-</td>
<td>179</td>
<td>-</td>
<td>179</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>-</td>
<td>26</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>-</td>
<td>10</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total financial liabilities carried at fair value</strong></td>
<td>$ -</td>
<td>$ 9,831</td>
<td>$ -</td>
<td>$ 9,831</td>
</tr>
</tbody>
</table>

<sup>1</sup> Common stocks - subsidiaries and affiliates do not include MMHLLC, which had a statutory carrying value of $4,968 million.
<sup>2</sup> Separate account assets do not include $1,091 million of book value, which are not carried at fair value.

For the six months ended June 30, 2014, there were no significant transfers between Level 1 and Level 2. For the year ended December 31, 2013, $173 million of equity securities were transferred from Level 1 to Level 2 and $232 million were transferred from Level 2 to Level 1.
### December 31, 2013

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Bonds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other governments</td>
<td>-</td>
<td>$1</td>
<td>-</td>
<td>$1</td>
</tr>
<tr>
<td>Industrial and miscellaneous</td>
<td>-</td>
<td>25</td>
<td>-</td>
<td>30</td>
</tr>
<tr>
<td>Parent, subsidiaries and affiliates</td>
<td>-</td>
<td>190</td>
<td>-</td>
<td>190</td>
</tr>
<tr>
<td>Preferred stocks</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Common stocks - unaffiliated</td>
<td>321</td>
<td>424</td>
<td>186</td>
<td>931</td>
</tr>
<tr>
<td>Common stocks - subsidiaries and affiliates(^{(1)})</td>
<td>309</td>
<td>210</td>
<td>367</td>
<td>886</td>
</tr>
<tr>
<td>Separate account assets(^{(2)})</td>
<td>41,697</td>
<td>21,254</td>
<td>490</td>
<td>63,441</td>
</tr>
<tr>
<td><strong>Derivatives:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>-</td>
<td>6,191</td>
<td>-</td>
<td>6,191</td>
</tr>
<tr>
<td>Options</td>
<td>-</td>
<td>231</td>
<td>-</td>
<td>231</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>-</td>
<td>88</td>
<td>-</td>
<td>88</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>-</td>
<td>13</td>
<td>-</td>
<td>13</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total financial assets carried at fair value</strong></td>
<td>$42,328</td>
<td>$28,609</td>
<td>$1,069</td>
<td>$72,006</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase agreements</td>
<td>$-</td>
<td>$3,674</td>
<td>-</td>
<td>$3,674</td>
</tr>
<tr>
<td><strong>Derivatives:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate swaps</td>
<td>-</td>
<td>4,626</td>
<td>-</td>
<td>4,626</td>
</tr>
<tr>
<td>Options</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Currency swaps</td>
<td>-</td>
<td>140</td>
<td>-</td>
<td>140</td>
</tr>
<tr>
<td>Forward contracts</td>
<td>-</td>
<td>42</td>
<td>-</td>
<td>42</td>
</tr>
<tr>
<td>Credit default swaps</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total financial liabilities carried at fair value</strong></td>
<td>$-</td>
<td>$8,491</td>
<td>-</td>
<td>$8,491</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Common stocks - subsidiaries and affiliates do not include MMHLLC, which had a statutory carrying value of $4,491 million.

\(^{(2)}\) Separate account assets do not include $1,037 million of book value, which are not carried at fair value.
The following presents changes in the Company's Level 3 assets carried at fair value:

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Preferred Stock</th>
<th>Common Stock</th>
<th>Separate Account Assets</th>
<th>Total Level 3 Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial and Miscellaneous</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as of January 1, 2014</td>
<td>$ 25</td>
<td>$ 1</td>
<td>$ 186</td>
<td>$ 367</td>
<td>$ 490</td>
</tr>
<tr>
<td>Gains (losses) in net income</td>
<td>(1)</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>56</td>
</tr>
<tr>
<td>Gains (losses) in surplus</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>22</td>
<td>-</td>
</tr>
<tr>
<td>Purchases</td>
<td>1</td>
<td>-</td>
<td>4</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>Issuances</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(137)</td>
<td>(137)</td>
</tr>
<tr>
<td>Settlements</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
<td>(20)</td>
<td>84</td>
</tr>
<tr>
<td>Other transfers</td>
<td>(16)</td>
<td>-</td>
<td>(1)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance as of June 30, 2014</td>
<td>$ 8</td>
<td>$ 1</td>
<td>$ 191</td>
<td>$ 372</td>
<td>$ 519</td>
</tr>
</tbody>
</table>

(1) The fair value of real estate separate accounts is carried net of encumbrances on the Condensed Consolidated Statutory Statement of Financial Position and the change in encumbrances is included in the settlements within separate account assets.

<table>
<thead>
<tr>
<th></th>
<th>Bonds</th>
<th>Preferred Stock</th>
<th>Common Stock</th>
<th>Separate Account Assets</th>
<th>Total Level 3 Financial Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Industrial and Miscellaneous</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance as of January 1, 2013</td>
<td>$ 16</td>
<td>$ -</td>
<td>$ 157</td>
<td>$ 180</td>
<td>$ 510</td>
</tr>
<tr>
<td>Gains in net income</td>
<td>3</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>135</td>
</tr>
<tr>
<td>(Losses) gains in surplus</td>
<td>1</td>
<td>-</td>
<td>(14)</td>
<td>(2)</td>
<td>-</td>
</tr>
<tr>
<td>Purchases</td>
<td>9</td>
<td>-</td>
<td>52</td>
<td>15</td>
<td>103</td>
</tr>
<tr>
<td>Issuances</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>190</td>
<td>-</td>
</tr>
<tr>
<td>Sales</td>
<td>-</td>
<td>(14)</td>
<td>(8)</td>
<td>(1)</td>
<td>(461)</td>
</tr>
<tr>
<td>Settlements</td>
<td>(42)</td>
<td>-</td>
<td>(1)</td>
<td>(15)</td>
<td>203</td>
</tr>
<tr>
<td>Other transfers</td>
<td>31</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Balance as of December 31, 2013</td>
<td>$ 25</td>
<td>$ 1</td>
<td>$ 186</td>
<td>$ 367</td>
<td>$ 490</td>
</tr>
</tbody>
</table>

(1) The fair value of real estate separate accounts is carried net of encumbrances on the Condensed Consolidated Statutory Statement of Financial Position and the change in encumbrances is included in the settlements within separate account assets.

6. **Fixed assets**

Beginning January 1, 2014, the Company changed its capitalization threshold policy on fixed assets from $2,000 to $5,000. This change was made in conjunction with changes in tax regulation.

7. **Deferred and uncollected life insurance premium**

No significant changes.

8. **Surplus notes**

No significant changes.
9. **Related party transactions**

No significant changes.

10. **Reinsurance**

No significant changes.

11. **Policyholders’ liabilities**

   a. **Liabilities for deposit-type contracts**

   In April 2014, the Company issued a dual tranche $750 million funding agreement, which supports medium-term notes of $500 million having a 5-year maturity with a 2.35% fixed rate coupon and of $250 million having a 10-year maturity with a 3.6% fixed rate coupon.

   In June 2014, the Company increased the authorized program amount for the Global Medium-Term Note Program to $17 billion from $12 billion.

   b. **Additional liability for annuity contracts**

   Certain variable annuity contracts include additional death or other insurance benefit features, such as guaranteed minimum death benefits (GMDBs), guaranteed minimum income benefits (GMIBs), guaranteed minimum accumulation benefits (GMABs) and guaranteed minimum withdrawal benefits (GMWBs). In general, these benefit guarantees require the contract or policyholder to adhere to a company-approved asset allocation strategy. Election of these benefits on annuity contracts is generally only available at contract issue.

   The following shows the liabilities for GMDBs, GMIBs, GMABs and GMWBs (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liability as of January 1, 2013</td>
<td>$ 667</td>
</tr>
<tr>
<td>Incurred guarantee benefits</td>
<td>(286)</td>
</tr>
<tr>
<td>Paid guarantee benefits</td>
<td>(4)</td>
</tr>
<tr>
<td>Liability as of December 31, 2013</td>
<td>277</td>
</tr>
<tr>
<td>Incurred guarantee benefits</td>
<td>55</td>
</tr>
<tr>
<td>Paid guarantee benefits</td>
<td>(2)</td>
</tr>
<tr>
<td>Liability as of June 30, 2014</td>
<td>$ 330</td>
</tr>
</tbody>
</table>

   The Company held reserves in accordance with the stochastic scenarios as of June 30, 2014 and December 31, 2013. As of June 30, 2014 and December 31, 2013, the Company held additional reserves above those indicated based on the stochastic scenarios in order to maintain a prudent level of reserve adequacy.
The following summarizes the account values, net amount at risk and weighted average attained age for variable annuity contracts with GMDBs, GMIBs, GMABs and GMWBs classified as policyholders’ reserves and separate 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>June 30, 2014</th>
<th>December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Amount</td>
<td>Weighted Age</td>
</tr>
<tr>
<td></td>
<td>Value at Risk</td>
<td>Attained Age</td>
</tr>
<tr>
<td>GMDB</td>
<td>$21,240</td>
<td>$80</td>
</tr>
<tr>
<td>GMIB</td>
<td>4,681</td>
<td>258</td>
</tr>
<tr>
<td>GMAB</td>
<td>2,695</td>
<td>1</td>
</tr>
<tr>
<td>GMWB</td>
<td>235</td>
<td>3</td>
</tr>
</tbody>
</table>

The GMDB account value above consists of $4,067 million within the general account and $17,173 million within separate accounts that includes $5,041 million of modified coinsurance.

12. Debt

No significant changes.

13. Employee benefit plans

Net periodic cost

The net periodic cost represents the annual accounting income or expense recognized by the Company and included in general insurance expenses. The net periodic cost in the Condensed Consolidated Statutory Statements of Income (Loss) is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Six Months Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td></td>
<td>(In Millions)</td>
</tr>
<tr>
<td>Service cost</td>
<td>$36</td>
</tr>
<tr>
<td>Interest cost</td>
<td>54</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(72)</td>
</tr>
<tr>
<td>Amortization of unrecognized transition obligation</td>
<td>1</td>
</tr>
<tr>
<td>Amortization of unrecognized net actuarial and other losses</td>
<td>31</td>
</tr>
<tr>
<td>Amortization of unrecognized prior service cost</td>
<td>4</td>
</tr>
<tr>
<td>Total net periodic cost</td>
<td>$54</td>
</tr>
</tbody>
</table>

14. Employee compensation plans

No significant changes.

26
15. Federal income taxes

No significant changes.

16. Transferable state tax credits

No significant changes.

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, currency exchange risk, 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 amounts due to policyholders. To the extent that fluctuations in interest rates cause the duration of assets and liabilities to differ, the Company manages its exposure to this risk by, among other things, asset/liability management techniques that account for the cash flow characteristics of the assets and liabilities. This condensed risks and uncertainties disclosure should be read in conjunction with the consolidated statutory disclosure in the Company’s 2013 audited year end financial statements.

Currency exchange

The Company has currency risk due to its non-U.S. dollar investments and medium-term notes along with its indirect international subsidiaries. The Company mitigates currency risk through the use of cross-currency swaps and forward contracts. Cross-currency swaps are used to minimize currency risk for certain non-U.S. dollar assets and liabilities through a pre-specified exchange of interest and principal. Forward contracts are used to hedge movements in exchange rates.

Investment and interest rate risks

As interest rates increase, certain debt securities may experience slower amortization or prepayment speeds than assumed at purchase, impacting the expected maturity of these securities and the ability to reinvest the proceeds at the higher yields. Rising interest rates may also result in a decrease in the fair value of the investment portfolio. As interest rates decline, certain debt securities may experience accelerated amortization and prepayment speeds than what was assumed at purchase. During such periods, the Company is at risk of lower net investment income as it may not be able to reinvest the proceeds at comparable yields. Declining interest rates may also increase the fair value of the investment portfolio.
b. Litigation

The Company is involved in litigation arising in and out of the normal course of business, which seeks both compensatory and punitive damages and equitable remedies. Although the Company is not aware of any actions or allegations that reasonably should give rise to a material adverse impact to the Company’s Condensed Consolidated Statutory Position or liquidity, the outcome of litigation cannot be foreseen with certainty. It is the opinion of management that the ultimate resolution of these matters will not materially impact the Company’s Condensed Consolidated Statutory Statements of Financial Position or liquidity. However, the outcome of a particular proceeding may be material to the Company’s Condensed Consolidated Statutory Statements of Income (Loss) 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.

Since December 2008, MassMutual and MMHLLC have been named as defendants in a number of putative class action and individual lawsuits filed by investors seeking to recover losses from the Ponzi scheme ran by Bernard L. Madoff through his company, Bernard L. Madoff Investment Securities, LLC (BLMIS). The plaintiffs allege a variety of state law and federal securities claims against MassMutual and/or MMHLLC, and certain of its subsidiaries, seeking to recover losses arising from their investments in several funds managed by Tremont Group Holdings, Inc. (Tremont) or Tremont Partners, Inc., including Rye Select Broad Market Prime Fund, L.P., Rye Select Broad Market Fund, L.P., American Masters Broad Market Prime Fund, L.P., American Masters Market Neutral Fund, L.P. and/or Tremont Market Neutral Fund, L.P. Both Tremont and its subsidiary, Tremont Partners, Inc., are indirect subsidiaries of MMHLLC. Certain of the lawsuits have been consolidated into three groups of suits in the U.S. District Court for the Southern District of New York. In February 2011, the parties in the consolidated federal litigation submitted to the court a proposed settlement agreement. In August 2011, the court entered an order and final judgment approving the settlement. Appeals have been filed and remain pending. The settlement, if affirmed on appeal, will not have a significant financial impact on MassMutual.

Additionally, a number of other lawsuits were filed in state courts in California, Colorado, Florida, Massachusetts, New Mexico, New York and Washington by investors in Tremont funds against Tremont, and in certain cases against MassMutual, MMHLLC and other defendants, raising claims similar to those in the consolidated federal litigation. Those cases are in various stages of litigation. MassMutual believes it has substantial defenses and will continue to vigorously defend itself in these actions. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from these claims.

On October 19, 2011, Golden Star, Inc. (Golden Star), plan administrator of the Golden Star Administrative Associates 401(k) Plan and Golden Star Bargaining Associates 401(k) Plan, filed a putative class action lawsuit in the U.S. District Court for the District of Massachusetts against MassMutual. Golden Star alleges, among other things, that MassMutual breached its alleged fiduciary duties while performing services to 401(k) plans and that certain of its actions constituted “Prohibited Transactions” under the Employee Retirement Income Security Act of 1974. Oral argument on MassMutual’s summary judgment motion was held in March 2014. In May 2014, the court denied MassMutual’s motion for summary judgment on the issue of whether MassMutual acts as a fiduciary when it accepts revenue sharing payments. In May 2014, the parties participated in a mediation of their dispute. In June 2014, MassMutual recorded a liability for the estimated probable amount of the loss it expects to incur in connection with this lawsuit, which did not have a significant impact on MassMutual.

In April 2010, Christina Chavez (Chavez) filed a putative class action complaint against MassMutual. Chavez alleges that MassMutual breached its obligations to its term life policyholders in California by not paying dividends on those policies. The parties are engaged in active discovery. In June 2014, the parties participated in a mediation of their dispute, which did not result in a settlement. MassMutual believes it has substantial defenses and will continue to vigorously defend itself in this action. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from this claim.
In 2009, numerous lawsuits (the Rochester Suits) were filed as putative class actions in connection with the investment performance of certain municipal bond funds advised by OFI and distributed by its subsidiary, OppenheimerFunds Distributor, Inc. The Rochester Suits raise claims under federal securities laws alleging that, among other things, the disclosure documents of the funds contained misrepresentations and omissions, that the investment policies of the funds were not followed and that the funds and other defendants violated federal securities laws and regulations and certain state laws. The Rochester Suits have been consolidated into seven groups, one for each of the funds, in the U.S. District Court of Colorado. Amended complaints and motions to dismiss the suits were filed. In October 2011, the court issued an order granting and denying in part defendants’ motion to dismiss the suits. In January 2012, the court granted a stipulated scheduling and discovery order in these actions. In September 2012, defendants opposed plaintiffs’ July 2012 motion for class certification and filed motions for partial summary judgment in several of the Rochester Suits. In March 2013, the court denied one of the defendants’ motions for partial summary judgment; defendants’ second motion, which seeks dismissal of plaintiffs’ “leverage ratio” claims, is still pending. In July 2013, the parties to six of the Rochester Suits reached an agreement, in principle, to settle those suits, and in August 2013, the parties executed a memorandum of understanding memorializing their agreement. In March 2014, the court issued an order granting preliminary approval of stipulations and agreements in these actions. The proposed settlements are subject to various contingencies, including final approval by the court. In the opinion of management, the settlement did not have a significant financial impact on the Company. The settlements, if given effect, would not settle a seventh suit. The court has stayed depositions in that suit pending approval of the settlements of the other suits. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from this remaining suit.

In May 2009, MassMutual was named as a defendant in a lawsuit related to certain losses in a bank owned life insurance (BOLI) policy issued by MassMutual. The plaintiff alleges, among other things, fraud, breach of contract and breach of fiduciary duty claims against MassMutual, and it seeks to recover losses arising from investments pursuant to the BOLI policy. The parties have completed discovery and are now preparing for trial, scheduled for January 2015. MassMutual believes it has substantial defenses and will continue to vigorously defend itself in this action. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from this claim.

In July 2012, Karen Bacchi filed a putative class action complaint against MassMutual in federal court alleging that MassMutual breached its contracts by allegedly failing to distribute surplus in excess of the statutorily prescribed limit. The court denied MassMutual’s motion to dismiss and the parties are engaged in active discovery. MassMutual believes that it has substantial defenses and will continue to vigorously defend itself in this action. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from this claim.

In November 2013, seven participants in the MassMutual Thrift Plan (the Plan) filed a putative class action complaint in the U.S. District Court for the District of Massachusetts. The complaint alleges, among other things, that MassMutual, the Investment Fiduciary Committee, the Plan Administrative Committee and individually named "fiduciaries" breached their duties by allowing the Plan to pay excessive fees and by engaging in self-dealing by limiting investment options primarily to MassMutual proprietary products. All defendants filed a joint motion to dismiss in January 2014. MassMutual believes that it has substantial defenses and will continue to vigorously defend itself in this action. No reasonable estimate can be made at this time regarding the potential liability, if any, or the amount or range of any loss that may result from this claim.
c. Regulatory matters

The Company is subject to governmental and administrative proceedings and regulatory inquiries, examinations and investigations in the ordinary course of its business. In connection with regulatory inquiries, examinations and investigations, the Company has been contacted by various regulatory agencies including, among others, the Securities and Exchange Commission, the U.S. Department of Labor and various state insurance departments and state attorneys general. The Company has cooperated fully with these regulatory agencies with regard to their inquiries, examinations and investigations and has responded to information requests and comments.

Market volatility in the financial services industry over the last several years has contributed to increased scrutiny of the entire financial services industry. Therefore, the Company believes that it is reasonable to expect that proceedings, regulatory inquiries, examinations and investigations into the insurance and financial services industries will continue for the foreseeable future. Additionally, new industry-wide legislation, rules and regulations could significantly affect the insurance and financial services industries as a whole. It is the opinion of management that the ultimate resolution of these regulatory inquiries, examinations, investigations, legislative and regulatory changes of which we are aware will not materially impact the Company’s financial position or liquidity. However, 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 financial impact of the matter and the level of the Company’s income for the period.

18. Withdrawal characteristics

No significant changes.
19. Presentation of the Condensed Consolidated Statutory Statements of Cash Flows

The Company has included the following non-cash inflows (outflows) in the Condensed Consolidated Statutory Statements of Cash Flows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Six Months Ended June 30, 2014</th>
<th>Year Ended December 31, 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond conversions and refinancing</td>
<td>$ 427</td>
<td>$ 699</td>
</tr>
<tr>
<td>Bank loan rollovers(^{(1)})</td>
<td>79</td>
<td>2,132</td>
</tr>
<tr>
<td>Other</td>
<td>42</td>
<td>25</td>
</tr>
<tr>
<td>Stock conversions</td>
<td>21</td>
<td>290</td>
</tr>
<tr>
<td>Other invested asset distributions to common stock</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Bond conversions to other invested assets</td>
<td>-</td>
<td>210</td>
</tr>
<tr>
<td>Mortgages converted to other invested assets</td>
<td>-</td>
<td>42</td>
</tr>
<tr>
<td>Related to RPG reinsurance agreement:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits for policyholders' reserves related to reinsurance agreement</td>
<td>-</td>
<td>5,298</td>
</tr>
<tr>
<td>Liabilities for deposit-type contracts related to reinsurance agreement</td>
<td>-</td>
<td>3,885</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>-</td>
<td>879</td>
</tr>
<tr>
<td>Bonds</td>
<td>-</td>
<td>(8,602)</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>-</td>
<td>(736)</td>
</tr>
<tr>
<td>Other assets</td>
<td>-</td>
<td>(383)</td>
</tr>
<tr>
<td>Preferred stock</td>
<td>-</td>
<td>(13)</td>
</tr>
</tbody>
</table>

\(^{(1)}\)Bank loan rollovers represent transactions processed as the result of rate resets on existing bank loans and are included in the proceeds from investments sold, matured or repaid on bonds. In 2013, bank loan rollovers that were a result of rate resets were presented on a gross basis. In 2014, bank loan rollovers that are a result of rate resets are presented on a net basis.

Refer to Note 10. “Reinsurance” in the Company’s 2013 audited year end financial statements for information about the Company’s Retirement Plans Group reinsurance agreement.

20. Subsequent events

MassMutual has evaluated subsequent events through August 6, 2014, the date the financial statements were available to be issued, and no events have occurred subsequent to the balance sheet date and before the date of evaluation that would require disclosure.