Massachusetts Mutual Life Insurance Company
Management's Discussion and Analysis
Of the 2006 Financial Condition and Results of Operations

General

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Audited Statutory Financial Statements, Notes to Statutory Financial Statements, and Statutory Annual Statements. This Management's Discussion and Analysis reviews the financial condition of Massachusetts Mutual Life Insurance Company ("MassMutual", "the Company", "us", "we" or "our") as of December 31, 2006 and 2005, our results of operations for the past two years and, where appropriate, factors that may affect its future financial performance.

We are a growth-oriented, diversified financial services company that seeks to provide superior value for policyholders and other customers by achieving exceptional results. We are in the business of helping our customers achieve financial success while protecting their families and businesses. We are committed to maintaining a position of preeminent financial strength by achieving consistent and long-term profitable growth.

This will be accomplished by developing and distributing a broad and superior portfolio of innovative financial products and services, sophisticated asset/liability management, rigorous expense control, prudent underwriting standards, continued efforts to improve persistency and retention levels, and continued commitment to the high credit quality and disciplined diversification of our general account investment portfolio.

Our efforts have produced strong financial performance, with statutory net income of $703 million in 2006 and $663 million in 2005. As of and for the year ended December 31, 2006, we had $71.4 billion in general account statutory assets, $109.2 billion in total statutory assets, net gain from operations (after dividends to policyholders and taxes) of $455 million, approximately 2.4 million individual policies in force and $340.3 billion of life insurance in force. Our total adjusted capital, as defined by the National Association of Insurance Commissioners (the "NAIC"), increased to $9.4 billion as of December 31, 2006 compared to $8.8 billion as of December 31, 2005.

The following table sets forth the calculation of total adjusted capital:

	December 31,	
	2006	2005
	(In Millions)	
Surplus [1]	$ 7,027	$ 6,688
Asset valuation reserves	1,784	1,518
One-half of the apportioned dividend liability	617	581
Total adjusted capital [2]	$ 9,428	$ 8,787

[1] Includes $250 million of surplus notes maturing in 2033, $100 million of surplus notes maturing in 2024 and $250 million of surplus notes maturing in 2023.

[2] Defined by the NAIC as surplus plus consolidated asset valuation reserve ("AVR") and one-half of the consolidated apportioned dividend liability.

Our strong performance and market position is reflected in our financial strength ratings as of December 31, 2006. MassMutual's ratings are AAA (Extremely Strong) from Standard & Poor's, A++ (Superior) from A.M. Best Company, AAA (Exceptionally Strong) from Fitch Ratings, and Aa1 (Excellent) from Moody's Investors Service. Each rating agency independently assigns ratings based on its own separate review and takes into account a variety of factors in making its decision. Accordingly, there can be no assurance of the ratings that will be afforded us in the future.

Financial strength ratings are based upon an independent review of MassMutual and its domestic insurance subsidiaries and that of the industry in which we operate. A rating trigger refers to any contractual clause in our contracts requiring action by us or resulting in financial consequences in the event of a downgrade of our financial strength rating below a specified level. We do not have any financial covenant requirements or triggers embedded in financing agreements or other financial contracts. At December 31, 2006, we had one group life insurance contract with a December 31, 2006 account value of $364 million that contained a rating trigger. If our financial strength ratings fall significantly, we are required to pursue the transfer of the risks of the contract to another company. We, through our subsidiary MassMutual Funding LLC, have short-term obligations consisting of commercial paper issued generally with a maturity of less than 180 days. During 2005, we, through MassMutual Funding LLC, renewed a $500 million senior unsecured five-year revolving credit facility to support our commercial paper borrowings. If our financial strength ratings fall two levels or more we will incur additional bank costs related to our credit facility.

As of December 31, 2006, there were no significant statutory or regulatory issues which would impair our financial position or liquidity, but there can be no assurance that such issues will not arise in the future. To the best of management's knowledge, we are not included on any regulatory or similar "watch list".

Our insurance products include a wide range of products and services distributed through a network of general agents, agents and affiliated distributors, broker dealers and banks, to customers primarily in the United States. Products include whole life insurance, universal life insurance, variable universal life insurance, term life insurance, bank-owned and corporate-owned life insurance, structured settlements, individual annuities, individual disability income insurance and long-term care insurance.

Our individual life insurance ("Life") business provides a broad range of products designed to meet a variety of needs, including death benefit protection, wealth transfer, income replacement, cash value accumulation, as well as supplemental retirement, estate and business planning. Life offers a diverse product offering encompassing whole life insurance, universal life insurance, variable life insurance, term life insurance, survivorship and several types of riders. In 2006, we introduced a new annual renewable term product, which is designed with the intent to be converted into whole life and is renewable to age 80. The conversion feature is available for 10 years, with conversion credits available in policy years two through seven.

Large Corporate Markets provides a range of products including corporate-owned life insurance ("COLI"), small and large case bank-owned life insurance ("BOLI"), executive group carve out life insurance products and private placement insurance products for the high net worth marketplace. Our clients include financial institutions, corporations, professional firms and certain high net worth individuals.

Disability Income provides products to insure income replacement in the event of disability. Products are sold in the individual, small business and worksite markets.

Settlement Solutions sells and administers structured settlements and other periodic payment products used to resolve settlement disputes and other situations where periodic payments facilitate a qualifying transaction. Our primary product is an agreement to assume responsibility for periodic payment obligations negotiated as a result of the settlement of personal physical injury tort liability claims. In January 2007, we made a strategic decision to cease accepting new business for these products.

The Retirement Income Group combines two divisions, Annuity and the Income Management Group. Products and programs include fixed and variable annuities, individual retirement accounts and an investment advisory program. In 2006, we launched a new retirement management account ("RMA") through our career agency system. We continue to explore and quantify expansion of the RMA distribution opportunities throughout the market. Thus far, we have experienced highly favorable responses from third parties creating potential for large-scale distribution opportunities for these RMAs. In 2006, we also launched a variable annuity developed in response to market demand for a simpler variable annuity product. It offers a new, patent-pending approach to investing in equities that provides investors the security of guaranteed principle, provided they remain fully invested during the benefit period of their choice, while also providing the growth potential that comes with participating in the stock market.

Retirement Services has been meeting the needs of institutional retirement plan sponsors since 1946. Initially offering defined benefit plans, Retirement Services has evolved to meet clients' changing needs by also providing defined contribution/401(k) and nonqualified deferred compensation retirement products and services for corporate, union, non-profit and governmental plans across the United States. In 2006, Retirement Services had more than one million plan participants and a total of more than $37.4 billion in assets under management. Retirement Services' patent-pending e4SM wireless enrollment system was named the number one "Wireless Innovation" for 2006 by *InformationWeek* magazine. The e4SM technology – short for Electronic Enhanced Enrollment Experience – provides participants at enrollment meetings with a hand-held device through which they can, among other things, instantly enroll in their employer-sponsored retirement plan.

Our Financial Products Division offers specialized institutional investment products including funding agreements for domestic and international institutional investors and single premium annuity contracts for terminating defined benefit plans. In 2006, the Company launched its Alpha-Backed Note program, a funding agreement-backed note program employing a separate account structure and a diversified investment management strategy, issuing a total of $500 million in 2006.

In November 2006, MassMutual Capital Partners LLC, 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, Scottish Re Group Limited, representing a 34.4 percent ownership interest. The transaction is expected to close in the second quarter of 2007.

Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements, which are identified as such and are accompanied by the identification of important factors, which could cause a material difference from the forward-looking statements.

Certain information contained in this discussion is or may be considered forward-looking. Forward-looking statements are those not based on historical information, but rather, relate to future operations, strategies, financial results or other developments, and contain terms such as "may," "expects," "should," "believes," "anticipates," "intends," "estimates," "projects," "goals," "objectives" or similar expressions.

Forward-looking statements are based upon estimates and assumptions. These statements may change due to business uncertainties, economic uncertainties, competitive uncertainties, and other factors, many of which are beyond our control. Additionally, our business decisions are also subject to change. We do not publicly update or revise any forward-looking statements as a result of new information, future developments or otherwise.

Results of Operations
Total Company

The following table sets forth the components of statutory net income, which are supported by the Annual Statement:

	Years Ended December 31,				
	2006	2005	2004	% Change 06 vs. 05	% Change 05 vs. 04
	($ In Millions)				
Revenue:					
Premium income	$ 12,484	$ 11,854	$ 12,500	5%	(5)%
Net investment income	4,155	4,022	3,838	3	5
Fees and other income	388	343	311	13	10
Total revenue	17,027	16,219	16,649	5	(3)
Benefits and expenses:					
Policyholders' benefits, payments and interest on deposit-type contracts	10,187	9,531	7,795	7	22
Change in policyholders' reserves	3,494	3,498	5,827	-	(40)
General insurance expenses	1,090	914	1,112	19	(18)
Commissions	513	488	520	5	(6)
State taxes, licenses and fees	112	111	107	1	4
Total benefits and expenses	15,396	14,542	15,361	6	(5)
Net gain from operations before dividends and federal income taxes	1,631	1,677	1,288	(3)	30
Dividends to policyholders	1,226	1,155	996	6	16
Net gain from operations before federal income taxes	405	522	292	(22)	79
Federal income tax (benefit) expense	(50)	73	132	(168)	(45)
Net gain from operations	455	449	160	1	181
Net realized capital gains	248	214	137	16	56
Net income	$ 703	$ 663	$ 297	6%	123%

Net income increased $40 million to $703 million in 2006 from $663 million in 2005. The increase in net income was due to increases in net realized capital gains of $34 million and net gain from operations of $6 million. The increase in net gain from operations was primarily due to an increase in premium income of $630 million, an increase in net investment income of $133 million, a decrease in federal income tax expense of $123 million and an increase in fees and other income of $45 million, partially offset by increased policyholders' benefits, payments and interest on deposit-type contracts of $656 million, increased general insurance expenses of $176 million, increased dividends to policyholders of $71 million and increased commissions of $25 million.

The $366 million increase in net income in 2005 is primarily due to the one time class action settlement agreement ("Global Settlement") reserve of $268 million we recognized in 2004. In 2005, the Company received final approval of the Global Settlement agreement involving alleged insurance sales practice 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 had paid $111 million of the original $268 million accrual.

In 2005, impacts to net income include a decrease in the change in policyholders' reserves of $2.3 billion, decreased general insurance expenses of $198 million, increased net investment income of $184 million, increased net realized capital gains of $77 million and a decrease in federal income tax expense of $59 million, partially offset by increased policyholders' benefits, payments and interest on deposit-type contracts of $1.7 billion, decreased premium income of $646 million and increased dividends to policyholders of $159 million.

Selected premium income information is presented below:

	Years Ended December 31,				
	2006	2005	2004	% Change 06 vs. 05	% Change 05 vs. 04
		($ In Millions)			
Premium income:					
Whole life	$ 2,871	$ 2,687	$ 2,722	7%	(1)%
Term life	82	84	87	(2)	(3)
Universal, variable & group life	1,334	981	1,286	36	(24)
Annuities and supplemental contracts	1,702	1,373	1,435	24	(4)
Disability income	427	412	394	4	5
Defined benefit and contribution	5,639	6,069	5,952	(7)	2
GIC and single premium annuity contracts	184	39	515	372	(92)
Other	245	209	109	17	92
Total	$ 12,484	$ 11,854	$ 12,500	5%	(5)%

Premium income includes premium and annuity considerations on life, annuity, supplementary contracts, accident and health contracts, traditional guaranteed investment contracts ("GIC"), single premium annuities, defined contribution and defined benefit considerations. Registered product deposits, deposits from domestic and international funding agreements, and guaranteed indexed separate account products are not included in premium. Premium income increased $630 million in 2006 primarily due to an increase of $353 million in universal, variable & group life premium due to increased sales of bank-owned life insurance and increased universal life premium, an increase of $329 million in annuity and supplemental contract premium due to growth in fixed and variable annuity products, an increase of $184 million in whole life premium and an increase of $145 million in GIC and single premium annuity contract premium due to a large terminal funding sale. These increases were partially offset by a decrease of $430 million in defined benefit and defined contribution premium as increased competition has impacted sales activity.

Premium income decreased $646 million in 2005 primarily due to a $476 million decline in GIC and single premium annuity contract premium as core insurance spread lending business was weak due to a lack of adequate new debt issuance with attractive yields to support pricing and a $354 million decrease in bank-owned life insurance premium as portfolio products have become less attractive.

The components of net investment income are set forth below:

	Years Ended December 31,				
	2006	2005	2004	% Change 06 vs. 05	% Change 05 vs. 04
	($ In Millions)				
Net investment income:					
Bonds	$ 2,410	$ 2,286	$ 2,089	5%	9%
Preferred stock	4	2	9	100	(78)
Common stock – subsidiaries and affiliates	201	138	126	46	10
Common stocks - unaffiliated	66	51	30	29	70
Mortgage loans on real estate	626	585	578	7	1
Contract loans	557	524	507	6	3
Real estate	221	252	280	(12)	(10)
Partnerships and LLCs	293	230	125	27	84
Derivatives and other invested assets	181	277	379	(35)	(27)
Cash, cash equivalents and short-term investments	104	130	111	(20)	17
Total gross investment income	4,663	4,475	4,234	4	6
Amortization of interest maintenance reserve	(57)	(24)	34	(138)	(171)
Net gain from separate accounts	18	26	11	(31)	136
Investment expenses	(469)	(455)	(441)	(3)	(3)
Net investment income	$ 4,155	$ 4,022	$ 3,838	3%	5%

Net investment income, including interest maintenance reserve ("IMR") amortization and net gains from separate accounts, increased $133 million in 2006 due to an increase in income from bonds, common stocks, partnerships and limited liability companies ("LLCs"), mortgage loans on real estate and contract loans. These increases were partially offset by decreases in derivatives and other invested assets, real estate, cash, cash equivalents and short-term investments, and IMR amortization.

In 2005, net investment income, including the IMR amortization and net gains from separate accounts, increased $184 million due to an increase in income from bonds, common stocks, mortgage loans on real estate, contract loans, partnerships and LLCs, net gain from separate accounts, and cash, cash equivalents and short-term investments. These increases were partially offset by decreases in real estate, derivatives and other invested assets, IMR amortization, and an increase in investment expenses.

Our overall gross portfolio yields were consistent during 2006 and 2005 at 7.1%. In 2006, yields on bonds, preferred stocks, common stocks and cash, cash equivalents and short-term investments increased while real estate and partnerships and LLCs decreased.

Bond gross investment income increased $124 million in 2006 due to increased average asset balances and yields. Average bond investments were $38.8 billion and $37.9 billion in 2006 and 2005, respectively. Yields increased from 6.2% in 2005 to 6.4% in 2006.

Income from common stocks increased in 2006 and 2005 due to increases in assets and dividends.

Mortgage loans on real estate gross investment income increased 7% to $626 million in 2006 from $585 million in 2005. The $41 million increase was primarily due to a $46 million increase in commercial loan income. Yields remained constant at 7.0%. In 2005, mortgage loans on real estate gross investment income

increased $7 million due to increases in prepayment fees and contingent interest, partially offset by decreased yields from 7.3% in 2004 to 7.0% in 2005.

The increase in contract loan gross investment income in 2006 is primarily due to increases in the asset balance, which rose from $7.3 billion in 2005 to $7.8 billion in 2006. The 2005 increase was due to increases in the asset balance which rose from $6.9 billion in 2004 to $7.3 billion in 2005.

The real estate yield, net of depreciation expense, decreased from 13.0% in 2005 to 11.2% in 2006. The $31 million decrease in gross investment income was primarily due to decreased rental income as a result of the sale of two hotels in the first half of 2006 and the sale of five hotels in 2005. In 2005, the decrease in real estate income of $28 million was due to a shrinking asset base, which decreased from $1.5 billion in 2004 to $1.3 billion in 2005 primarily due to the sale of five hotel properties to a new real estate separate account.

Partnerships and LLC gross investment income increased $63 million in 2006, primarily due to a significant distribution from an underlying partnership investment. In 2005, gross investment income from partnerships and LLCs increased $105 million primarily due to increased gains on sales of underlying partnership investments.

In 2006, the decrease in derivatives and other invested assets gross investment income of $96 million was primarily due to a decrease in interest rate swap income from $243 million in 2005 to $161 million in 2006. In 2005, the $102 million decrease in derivative and other investment income was driven by a decrease in interest rate swap income from $337 million in 2004 to $243 million in 2005.

The cash, cash equivalents and short-term investments gross investment income decreased from $130 million in 2005 to $104 million in 2006. The decrease was primarily due to a decrease in the average investment from $3.1 billion in 2005 to $2.3 billion in 2006. This was partially offset by increased yields, which were 4.6% in 2006 compared to 4.3% in 2005. In 2005, gross investment income on cash, cash equivalents and short-term investments increased $19 million due to increased yields, which were 4.3% in 2005 compared to 2.5% in 2004 partially offset by a $1.3 billion decrease in the average investment from $4.4 billion in 2004 to $3.1 billion in 2005.

IMR amortization was $24 million of losses in 2005 and $57 million of losses in 2006 due to increased amortization of losses primarily due to currency and mortgage forwards of $12 million and $6 million, respectively, and prior year losses of $15 million. For 2005, the IMR amortization compared to the prior year decreased $58 million, or 171%. The decrease is primarily due to a decrease in mortgage backed securities forward gains which dropped $53 million during 2005.

Fees and other income, which includes miscellaneous income, commissions and expense allowances on reinsurance ceded and reserve adjustments on reinsurance ceded, increased $45 million in 2006 primarily due to a $22 million increase in separate account fees due to higher separate account assets. In addition, reserve adjustments on reinsurance ceded increased $11 million primarily due to lower amounts payable on Modco reinsurance with MassMutual Life Insurance Company, our Japan affiliate, and an outside reinsurer, as this reinsured business continues to runoff.

Fees and other income increased $32 million in 2005. This increase is primarily due to a $22 million increase in separate account fees attributable to growth in our registered retirement product and asset based fee charges on separate account assets.

Policyholders' benefits, payments and interest on deposit-type contracts, which includes supplementary contract payments, matured endowments, death, annuity, disability and surrender benefits, and interest and adjustments on contract or deposit-type contract funds, such as medium-term notes ("MTNs"), increased $656 million in 2006. This increase is primarily due to a $435 million increase in Retirement Services due to increased redemptions related to higher asset levels and a higher rate of participant level redemptions, a $99 million increase in Annuity due to increased surrenders on fixed products due to the interest rate environment and increased surrenders on variable products in line with the aging block of business and a $94

million increase in Life primarily due to increased death benefits as there has been an increase in the average claim size.

Policyholders' benefits, payments and interest on deposit-type contracts increased $1.7 billion in 2005 primarily due to an increase in Retirement Services redemptions of $1.6 billion. This increase was primarily due to increased sponsor redemptions triggered by acquisitions, as our clients' plans were merged into the plans of their new owners.

The life insurance lapse rate, which is based on the amount of life insurance in force, improved to 4.3% from 4.8% in 2006 and 2005, respectively.

Change in policyholders' reserves, which includes transfers to and from separate accounts based upon policyholder elections, and the change in general account reserves, decreased $4 million in 2006. This resulted from policyholders' benefits and payments growing at a faster rate than premium. Offsetting these factors were increases in interest on growing reserves and an increase in reserves for secondary guaranteed products.

Change in policyholders' reserves in 2005 decreased $2.3 billion primarily due to a $1.5 billion decrease in Retirement Services due to an increase in redemptions.

Commissions, including commissions and expense allowances on reinsurance assumed, increased $25 million in 2006 primarily due to increased commissions on universal life and fixed and variable annuity products, partially offset by a $30 million decrease due to the Modco reinsurance agreement with our Japanese affiliate. In 2005, commissions decreased $32 million primarily due to lower Life commissions, which are consistent with a reduction in sales, partially offset by an increase related to the Modco reinsurance agreement with our Japanese affiliate. Commissions do not necessarily correlate to total premium income since commission rates vary by product. Commission schedules are relatively greater for individual life and annuity products compared to retirement products, which do not generate significant commissions.

General insurance expenses increased $176 million in 2006 due to increased consultant costs associated with corporate governance and strategic initiatives, higher production expenses related to sales growth and increased information system costs. In 2005, general insurance expenses decreased $198 million primarily due to expenses relating to the Global Settlement incurred in 2004.

Dividends to policyholders increased $71 million in 2006 primarily due to the increase in the dividend scale announced in 2006 and normal business growth. In 2005, dividends to policyholders increased $159 million primarily due to an increase in the dividend scale and normal growth.

Federal income taxes decreased $123 million in 2006 largely due to favorable federal government tax settlements in 2006 in contrast with payments made in 2005 in settlement of the 1998 to 2000 tax audit, along with greater releases of additional liabilities held for various tax items in 2006 relative to 2005. Further decreases relate to a reduction in statutory pretax earnings and related taxable income. These reductions were partially offset by smaller deductions permitted for tax purposes in 2006 associated with the Global Settlement litigation payments and a greater reduction in 2005 relative to 2006 for items associated with the deductibility of policyholders' dividends.

Federal income taxes decreased $59 million in 2005, primarily due to the increase in policyholders' dividends, deductions associated with Global Settlement litigation payments and greater foreign tax credits, partially offset by higher taxes associated with Internal Revenue Service ("IRS") settlements.

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

	Years Ended December 31,				
	2006	2005	2004	% Change 06 vs. 05	% Change 05 vs. 04
	($ In Millions)				
Realized capital gains (losses)					
Bonds	$ (29)	$ (33)	$ (30)	12%	(10)%
Preferred stocks	16	14	-	14	NM
Common stock–subsidiaries and affiliates	18	1	-	NM	NM
Common stocks-unaffiliated	183	128	117	43	9
Mortgage loans on real estate	21	63	(4)	(67)	NM
Real estate	56	142	123	(61)	15
Partnerships and LLCs	56	10	(37)	460	127
Derivatives and other	(72)	(221)	(30)	67	637
Federal and state taxes (benefit) expense	(51)	1	(21)	NM	105
Net realized capital gain before deferral to IMR	198	105	118	89	(11)
Net losses deferred to IMR	76	168	28	(55)	500
Less taxes on net deferred losses	(26)	(59)	(9)	56	(556)
Net after-tax losses deferred to IMR	50	109	19	(54)	474
Total net realized capital gains	$ 248	$ 214	$ 137	16%	56%

NM = Not Meaningful

Net realized capital gains increased $34 million in 2006 primarily due to a decrease in derivative and other losses of $149 million and increased gains in common stocks and partnerships and LLCs of $72 million and $46 million, respectively. These increases were partially offset by decreased gains in real estate and mortgage loans on real estate of $86 million and $42 million, respectively, decreased net after-tax losses deferred to the IMR of $59 million, and an increase in federal and state taxes of $52 million.

Net realized capital gains increased $77 million in 2005 primarily due to net after-tax losses deferred to the IMR, mortgage loans on real estate, real estate and common stock which increased $90 million, $67 million, $19 million, and $12 million, respectively, and a decrease in federal and state taxes of $22 million. These increases were partially offset by an increased loss of $191 million from closed derivative financial instruments.

Realized capital gains (losses) do not reflect the changes in AVR and other investment reserves, which are recorded as a change in surplus.

For 2006, $50 million of net after-tax losses were deferred into the IMR due to losses from derivatives, bonds and preferred stocks of $52 million and $12 million, respectively. Offsetting these losses were gains from mortgage loans on real estate of $14 million. In 2005, $109 million of losses were deferred into the IMR due to $145 million in losses from derivatives which were partially offset by capital gains from mortgage loans on real estate of $34 million. Losses deferred to the IMR are amortized into income over the estimated life of the investment sold.

Mortgage loans on real estate net realized capital gains decreased $42 million in 2006 primarily driven by prior year sales of 69 affordable housing mortgage loans, in which the pre-tax gain recognized was $53 million.

Partnerships and LLCs net realized capital gains increased $46 million due to $28 million of increased gains from dispositions and an $18 million decrease in impairments.

Derivative and other net realized capital losses decreased $149 million. 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, partially offset by net realized gains on derivatives. Derivative instruments had realized gains of $20 million in 2006 compared to realized losses of $219 million in 2005. The primary drivers were currency swaps, mortgage-backed securities forwards, and futures, which had gains of $93 million, $11 million and $6 million, respectively. These gains were partially offset by realized losses in interest rate swaps and currency forwards of $76 million and $17 million, respectively. These derivative gains are primarily driven by changes in interest rates; therefore, derivative instruments can have large fluctuations period over period.

Derivative unrealized losses increased $74 million primarily due to a $105 million decline in the value of financial options, partially offset by an increase in the value of interest rate swaps of $42 million.

Fluctuations in market conditions will impact future investment results.

Bond realized capital gains (losses) on sales and other-than-temporary-impairments were comprised of the following:

	Years Ended December 31,				
	2006	2005	2004	% Change 06 vs. 05	% Change 05 vs. 04
	($ In Millions)				
Gross realized capital gains on sales	$ 90	$ 105	$ 84	(14)%	25%
Gross realized capital losses on sales	(87)	(80)	(52)	(9)	(54)
Impairment losses	(32)	(58)	(62)	45	6
Net realized capital (losses)	$ (29)	$ (33)	$ (30)	12%	(10)%

The following table sets forth the net realized and unrealized capital losses (unrealized losses are charged directly to surplus) from derivatives:

	Years Ended December 31,				
	2006	2005	2004	% Change 06 vs. 05	% Change 05 vs. 04
	($ In Millions)				
Net realized capital gains (losses)	$ 20	$ (219)	$ (28)	109%	NM
Net unrealized capital losses	(348)	(274)	(209)	(27)	(31)%
Net realized and unrealized capital losses	$ (328)	$ (493)	$ (237)	33%	(108)%

NM = Not Meaningful

Statement of Financial Position

The following table sets forth MassMutual's significant assets, liabilities and surplus.

	December 31,		
	2006	2005	% Change 06 vs. 05
	($ In Millions)		
Assets:			
Bonds	$ 40,333	$ 37,263	8%
Preferred stocks	255	132	93
Common stocks – subsidiaries and affiliates	3,177	2,992	6
Common stock – unaffiliated	1,145	961	19
Mortgage loans on real estate	10,007	8,556	17
Contract loans	7,799	7,284	7
Real estate	1,265	1,298	(3)
Partnerships and limited liability companies	3,776	2,635	43
Derivatives and other invested assets	987	1,275	(23)
Cash, cash equivalents and short-term investments	656	3,884	(83)
Total invested assets	69,400	66,280	5
Investment income due and accrued	670	668	-
Other than invested assets	1,311	1,171	12
Total assets excluding separate accounts	71,381	68,119	5
Separate account assets	37,840	32,575	16
Total assets	$ 109,221	$100,694	8%
Liabilities and surplus			
Policyholders' reserves	$ 54,804	$ 52,896	4%
Liabilities for deposit–type contracts	3,586	4,339	(17)
Contract claims and other benefits	241	258	(7)
Policyholders' dividends	1,245	1,172	6
General expenses due and accrued	730	595	23
Federal income taxes	125	69	81
Asset valuation reserve	1,694	1,466	16
Reverse repurchase agreements	1,183	244	385
Other liabilities	873	1,063	(18)
Total liabilities excluding separate accounts	64,481	62,102	4
Separate account liabilities	37,713	31,904	18
Total liabilities	102,194	94,006	9
Surplus	7,027	6,688	5
Total liabilities and surplus	$ 109,221	$100,694	8%

Assets

Total assets increased $8.5 billion, or 8%, in 2006 primarily due to increases in separate account assets of $5.3 billion, bonds of $3.1 billion, mortgage loans on real estate of $1.5 billion, partnerships and limited liability companies of $1.1 billion and contract loans of $515 million, partially offset by a decrease in cash, cash equivalents and short-term investments of $3.2 billion.

Total invested assets excluding separate accounts increased by $3.1 billion, or 5%, driven primarily by a net increase in policyholders' reserves, liabilities for deposit-type contracts, reverse repurchase agreements and surplus.

Separate account assets increased $5.3 billion, or 16%, primarily due to market appreciation of $3.9 billion and positive net customer cash flows of $2.0 billion, partially offset by $629 million of net seed money withdrawals.

Bonds increased $3.1 billion in 2006. We purchased $17.2 billion of bonds, while maturities and sales proceeds were $14.4 billion. Bonds in NAIC Classes 1 and 2 were 53% and 51% of total general invested assets as of December 31, 2006 and 2005, respectively. The percentage of total invested assets representing bond investments in NAIC Classes 3 through 6 was 5% as of December 31, 2006 and 2005. See "Investments" for more discussion of NAIC investment classes.

Mortgage loans on real estate increased $1.5 billion in 2006. This increase is primarily due to mortgage loan originations of $3.6 billion, partially offset by $2.1 billion in maturities and sales proceeds, including prepayments of $724 million.

Contract loans increased $515 million, or 7%, in 2006 due to normal growth.

Real estate decreased $33 million in 2006. We received $119 million in proceeds from the sale of real estate and invested $152 million in new properties and capital improvements. Depreciation expense recorded during 2006 totaled $85 million. As of December 31, 2006, hotels and commercial office buildings remaining in the general account represented 44% and 53%, respectively, of our real estate portfolio compared to 47% and 51% for the same property types as of December 31, 2005. We believe that investing in hotels and commercial office buildings leverages our expertise in this field.

In 2004, we 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, we 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 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 our investment in the real estate separate account into these partnership interests. At the time of the transfer, all of the deferred gains were offset against the market value of the properties thereby bringing our investment in the new partnerships back to our historical cost of $398 million. We did not record a gain or loss associated with this transfer. For the portion of the new partnerships owned by outside investors, we recorded a surrender of their group annuity contracts and an offsetting change in reserves to effect the movement of the outside investors' interests from the separate account to the new partnerships.

Of the real estate investments transferred into the new partnerships, we 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, we 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 the 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 us and any of our affiliates against, and agree to hold us harmless from any and all losses in connection with the specified properties. As we retained legal title to the specified properties, we remain 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. We recorded 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.

Partnerships and LLC's increased $1.1 billion in 2006 primarily due to excess contributions over distributions. In 2006, we had $1.8 billion of contributions and $843 million of sales and distributions. As of December 31, 2006, earnings from partnerships and LLC's were $287 million.

Cash, cash equivalents and short-term investments decreased $3.2 billion in 2006 due to the purchase of long-term investments such as bonds and mortgage loans on real estate. In addition, $906 million of the decrease was related to the reclassification of custodial receipts from short-term investments to bonds.

Other than invested assets increased $140 million to $1.3 billion in 2006 from $1.2 billion in 2005. The increase is primarily driven by an increase of $82 million in net deferred tax assets and a $56 million increase related to the reclassification of the Rabbi Trust. The increase in the net deferred tax asset was due to increases in deferred and incentive compensation expected payouts, increases in policyholder dividends to be paid in 2007, and increases in anticipated payments associated with the Global Settlement agreement. The increase related to the Rabbi Trust results from this asset having been previously recorded as a reduction to the liability for benefit plans.

Liabilities

Total liabilities increased $8.2 billion, or 9%, in 2006 primarily due to an increase of $5.8 billion in separate account liabilities, an increase of $1.9 billion in policyholders' reserves and an increase of $939 million in reverse repurchase agreements, partially offset by a decrease of $753 million in liabilities for deposit-type contracts.

The increase in policyholders' reserves of $1.9 billion is primarily due to an increase in Life reserves of $1.5 billion reflecting normal growth of the inforce blocks, current year sales activity and additional reserves for products that have secondary guarantees. In addition, reserves increased $237 million in Settlement Solutions in line with current year premium activity, $176 million in Large Corporate Markets due to normal growth, partially offset by a decrease of $198 million in Retirement Services as policyholder benefit payments exceeded premium income.

The decrease in liabilities for deposit-type contracts of $753 million is primarily due to a decrease in Financial Products of $690 million due to the maturity of MTN contracts in 2006. In addition, due to inadequate investment spreads we did not issue any "credit-backed" MTN contracts in 2006.

The decrease in contract claims and other benefits of $17 million in 2006 is primarily due to the release of a 2005 accrual upon the payment to a reinsurer.

The liability for policyholders' dividends increased $73 million in 2006 due to an increase in the dividend scale announced in the fourth quarter of 2006 and normal business growth.

The liability for general expenses due and accrued increased $135 million in 2006. This increase is primarily due to the transfer of a fully funded $37 million payment obligation from MassMutual Holding LLC, an increase in the 2006 incentive compensation accruals of $29 million, the establishment of a severance liability for post-employment benefits of $23 million and an increase in the accruals related to the "Global Settlement" of $20 million.

Federal income tax liability in 2006 increased $56 million largely due to prior year corrections of $48 million related to tax expense reported in the Company's 2002 and 2003 financial statements, the impact of which is an adjustment to surplus this year.

AVR increased $228 million in 2006 primarily due to a $165 million increase in the real estate and other invested assets reserve, $44 million increase in the common stock reserves, $11 million increase in the mortgage loan reserves and $9 million increase in the bonds, preferred stocks and short-term investments reserve. For a rollforward of these reserve balances, see "Investment Reserves."

The liability for reverse repurchase agreements increased $939 million in 2006. These instruments have been a favorable means of financing higher yielding investments under current market conditions. Reverse repurchase agreements have allowed MassMutual to use its "AAA" credit rating to reinvest proceeds from these instruments at a slightly higher rate, creating spread income.

Other liabilities decreased $190 million in 2006 primarily due to a $262 million reversal of deferred gains related to the Cornerstone Property Fund transfer and a $66 million increase in transfers due from the separate accounts, partially offset by an increase in remittances and items not allocated of $110 million. The Cornerstone Property Fund was converted from a separate account to an LLC/REIT structure, resulting in all deferred gains being reversed against the market value adjustments that created them. The increase of $110 million in remittances and items not allocated is primarily due to suspense items which include cash clearing for investment income and pay downs for securities cleared in early January.

Surplus

The increase of $339 million in surplus was primarily due to $703 million in net income, partially offset by a $228 million increase in asset valuation reserves and a $136 million increase in non-admitted assets. For discussion of changes in the AVR, see "Investment Reserves".

The increase in non-admitted assets is primarily due to an increase in foreign partnership investments for which U.S. GAAP audits are not performed, to be admitted under statutory rules a U.S. GAAP audit must be obtained, and an increase in the non-admitted pension plan assets.

Liquidity and Capital Resources

Liquidity

We manage our liquidity position by matching our exposure to cash demands with adequate sources of cash and other liquid assets. Our principal sources of liquidity are operating cash flows and holdings of cash, cash equivalents and other readily marketable assets. Our primary cash flow sources include investment income, principal repayments on invested assets, life insurance premium, annuity premium and deposits, and financial product deposits. Historically, we have consistently experienced net positive cash flows from operations.

Cash, cash equivalents and short-term investments decreased $3.2 billion, or 83%, during 2006 as funds were shifted from short-term investments to longer-term investments, such as bonds and mortgage loans on real estate. We continue to maintain a significant cash investment position to support our credit risk management strategy. Rather than increase our credit risk, we use a combination of derivatives and short-term investments to economically create temporary investment positions, which are highly liquid and of high quality. These investments are created opportunistically when they are economically more attractive than other investments and are held to improve the quality and performance of the general account until other suitable investments become available.

Net cash provided from operations decreased $37 million, or 2%, to $2.4 billion in 2006. The decrease is attributable to an increase of $720 million in benefit payments, an increase in net transfers to separate accounts of $214 million, and an increase in dividends paid to policyholders of $154 million, partially offset by an increase of $691 million in premium and other income collected and a decrease in federal and foreign income tax payments of $346 million.

Net cash provided from operations decreased $621 million, or 21%, to $2.4 billion in 2005. The decrease in 2005 is attributable to an increase of $1.7 billion in benefit payments, a decrease of $691 million in premium and other income collected and an increase of $425 million in federal and foreign income taxes paid, partially offset by a decrease of $1.9 billion in net transfers to separate accounts, a decrease of $260 million in commissions and other expenses paid and a decrease in dividends paid to policyholders of $101 million.

Net cash from investments decreased $5.6 billion to $5.1 billion of net purchases in 2006. Purchases of investments decreased $1.2 billion, or 5%, to $24.3 billion in 2006 from $25.5 billion in 2005. Sales and

maturities of investments and receipts from repayments of loans decreased $6.8 billion, or 26%, to $19.2 billion in 2006 from $26.0 billion in 2005.

Net cash from investments increased $7.4 billion to $466 million of net proceeds in 2006. Purchases of investments increased $2.9 billion, or 13%, to $25.5 billion in 2005 from $22.7 billion in 2004. Sales and maturities of investments and receipts from repayments of loans increased $10.3 billion, or 65%, to $26.0 billion in 2005.

Net cash from financing activities and other sources increased $965 million to $62 million of net cash provided by financing activities and other sources in 2006. The increase is primarily due to a $747 million increase in net cash provided by reverse repurchase agreements.

Net cash from financing activities and other sources decreased $925 million to $903 million of net cash applied to financing activities and other sources in 2005. This decrease is due to increased withdrawals on deposit-type contracts, partially offset by changes in foreign exchange items, reverse repurchase agreements and changes in amounts due from separate accounts.

Our investment portfolio is structured to ensure a strong liquidity position in order to permit timely payment of policy and contract benefits without requiring an uneconomic sale of assets. Our liquid assets are classified into four categories: cash equivalents, highly liquid, reasonably liquid, and other potential liquidity sources with estimated fair values as of December 31, 2006 totaling $25.7 billion. Cash equivalents are assets that can be converted to cash in one day, and include cash, short-term investments and U.S. Treasury securities, including zero-coupon bonds. Highly liquid assets are those for which a ready market exists at all times with large numbers of buyers willing to pay approximately the same price for a security, such as agency mortgage-backed pass-through securities, and publicly traded common stock. Reasonably liquid instruments are those for which there is normally a good market with large numbers of buyers, but which may not have a ready market at all times. Other potential liquidity sources are those assets whose fair value should be realizable in the market place and which may require time to sell.

We utilize sophisticated asset/liability analysis techniques in the management of the investments supporting our liabilities. Additionally, we test the adequacy of the projected cash flows provided by assets to meet all of our future policyholder and other obligations. We perform these studies using stress tests regarding future credit and other asset losses, market interest rate fluctuations, claim losses and other considerations. The result provides a picture of the adequacy of the underlying assets, reserves and capital. We analyze a variety of scenarios modeling potential demands on liquidity taking into account the provisions of policies and contracts in force, our cash flow position, and the volume of cash and readily marketable securities in our portfolio. We proactively manage our liquidity position on an ongoing basis to meet cash needs while minimizing adverse impacts on investment returns.

Even in the most extreme scenarios we have tested, negative cash flow is extremely unlikely and operating cash flow is sufficient to satisfy our obligations without the sale of any but the most liquid assets. As part of those stress test scenarios, we assume no new business is written. In the event of significantly negative cash flow, in order to meet cash demands we would first utilize our cash and short-term positions. Stress testing shows this would be sufficient to meet needs except under very unusual conditions. If the short-term position were in danger of becoming depleted, selling other liquid investments would raise additional cash. Some uses of cash would be suspended, including new investments in illiquid positions, acquisition activity, and the seeding of new investment funds for product development purposes. If necessary, we can issue, to the extent not already outstanding, up to $1.0 billion of commercial paper through our indirect, wholly-owned subsidiary, MassMutual Funding, LLC, to avoid having to sell securities at less than fair value. Depending on the reasons for the cash drain, other borrowing, such as debt or surplus notes, would be considered in order to restore liquidity after the immediate needs were met. Another approach would be to securitize less liquid assets to restore liquidity.

Institutional Investment Product Contract Terms

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. Contributions and withdrawals are largely fixed at the time of sale. In October 2006, the Company announced it had exited the market and ceased issuing new contracts. As of December 31, 2006, GIC account balances totaled $586 million, which included $137 million in contracts that can be surrendered voluntarily with a market-value adjustment.

Structurally similar to GICs, funding agreements are investment contracts sold to the domestic and international non qualified market. The terms of the funding agreement do not give the holder the right to terminate the contract prior to the contractually stated maturity date. As of December 31, 2006, general investment account funding agreement balances totaled $2,280 million.

Most of the Company's funding agreements are issued in support of its MTN programs. In this program, the Company creates an investment vehicle or trust for the purpose of issuing MTNs to domestic and/or international investors. Proceeds from the sale of the MTNs issued by these unconsolidated affiliates are used to purchase funding agreements from the Company. The payment terms of any particular series of notes are matched by the payment terms of the funding agreement securing the series. Notes were initially issued from the Company's $2.0 billion European Medium-Term Note Program ("EMTN"), now in run-off, and are now issued from its $5.0 billion Global Medium-Term Note Program ("GMTN").

No funding agreements in these programs have been issued with put provisions or ratings-sensitive triggers. Currency swaps are employed to economically eliminate foreign exchange risk from all funding agreements issued to back non-U.S. dollar denominated notes. Assets received for funding agreements issued through the GMTN may be invested in either the Company's general account or a separate account. As of December 31, 2006, the Company has cumulatively issued $4,254 million of funding agreements under these programs and $2,491 million at par remains outstanding.

In 2004, the Company issued a $1.0 billion six-year funding agreement to a corporate pension plan in the form of a Guaranteed Indexed Separate Account ("GISA"). The guaranteed interest credited per the agreement is the return on the Lehman Brothers 1-3 Year Government/Credit Index. Maturity payments are spread over the final three years of the contract, with one-third of the guaranteed fund balance paid at the end of the fourth year, half of the remaining fund balance paid at the end of the fifth year, and the final remaining balance paid upon maturity. The guaranteed fund balance of the GISA was $1,062 million as of December 31, 2006, and is reflected in the separate accounts.

As of December 31, 2006, the maturity schedule for general investment account contract liabilities was as follows:

	Funding Agreements	Guaranteed Investment Contracts	Total
		(In Millions)	
2007	$ 520	$ 125	$ 645
2008	306	131	437
2009	464	288	752
2010	205	8	213
2011	4	34	38
Thereafter	781	-	781
	$ 2,280	$ 586	$ 2,866

Dividends from Subsidiaries

The Company's wholly owned subsidiary, MassMutual Holding LLC ("MMHLLC"), is the parent of subsidiaries which include retail and institutional asset management, registered broker dealers, and international life and annuity operations.

We do not rely on dividends from our subsidiaries to meet our operating cash flow requirements. Dividend payments from insurance subsidiaries are generally subject to certain restrictions imposed by statutory authorities. Additionally, dividend payments from other subsidiaries are limited to their retained earnings.

For our domestic 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 MassMutual without the prior approval from the insurance department of the particular insurance subsidiary's state of domicile. Our domestic insurance subsidiary, C.M. Life, is required to obtain prior approval for dividend payments in 2007.

For foreign insurance subsidiaries, the most significant insurance regulatory jurisdictions include Japan, Taiwan and Hong Kong. Historically, we have reinvested a substantial portion of our unrestricted earnings in our operations.

Distributions by MMHLLC are recorded in net investment income and are limited to MassMutual's equity in MMHLLC. Distributions were $175 million in 2006 and $100 million in 2005.

Capital Resources

As of December 31, 2006 and 2005, our total adjusted capital as defined by the NAIC was $9.4 billion and $8.8 billion, respectively. The NAIC developed a Risk Based Capital ("RBC") model to compare total adjusted capital with a standard design in order to reflect an insurance company's risk profile. Although we believe that there is no single appropriate means of measuring capital needs, we feel that the NAIC approach to RBC measurement is reasonable, and we manage our capital position with significant attention to maintaining adequate total adjusted capital relative to RBC. Our total adjusted capital was well in excess of all RBC standards as of December 31, 2006 and 2005. We believe that we enjoy a strong capital position in light of our risks and that we are well positioned to meet policyholder and other obligations.

Investments

General

Approximately 35% of our assets as of December 31, 2006 are separate account assets. These assets consist principally of marketable securities reported at fair value and are not available to satisfy liabilities that arise from any of our other businesses. The following discussion focuses on the general account portfolio, which does not include our separate account assets.

As of December 31, 2006, we have $69.4 billion of invested assets in our general account, an increase of $3.1 billion. We manage the portfolio of invested assets to support the general account liabilities in light of liability characteristics and yield, liquidity and diversification considerations.

The following table sets forth our invested assets in the general account and the related gross investment yield thereon as of the dates indicated.

	December 31,					
	2006			2005		
	Carrying Value	% of Total	Yield	Carrying Value	% of Total	Yield
	($ In Millions)					
Bonds	$ 40,333	58%	6.4%	$ 37,263	56%	6.2%
Preferred stocks	255	-	2.1	132	-	1.4
Common stocks – subsidiaries and affiliates	3,177	5	6.7	2,992	5	5.8
Common stocks - unaffiliated	1,145	2	6.5	961	1	5.4
Mortgage loans on real estate	10,007	14	7.0	8,556	13	7.0
Contract loans	7,799	11	7.7	7,284	11	7.7
Real estate	1,265	2	11.2	1,298	2	13.0
Partnerships and limited liability companies	3,776	5	9.6	2,635	4	10.9
Derivatives and other invested assets	987	2	NM	1,275	2	NM
Cash, cash equivalents and short-term investments	656	1	4.6	3,884	6	4.3
Total investments	$ 69,400	100%	7.1%	$ 66,280	100%	7.1%

NM = Not Meaningful

We calculate the yield on each investment category, excluding real estate, before federal income taxes as: (a) gross investment income divided by (b) the sum of assets at the beginning of the year and assets at the end of the year, net of unrealized gains or losses on derivative financial instruments and less gross investment income, divided by two. Real estate yields are calculated in the same manner, however, investment income is net of depreciation expense. After deducting all investment expenses, taxes and IMR amortization, net annualized yields were 6.4% for the years ended December 31, 2006 and 2005.

Bonds, Cash Equivalents and Short-Term Investments

Bonds consist primarily of government backed securities and high quality marketable corporate debt securities. We invest a significant portion of our investment funds in high quality publicly traded bonds in order to maintain and manage liquidity and reduce the risk of default in the portfolio.

The NAIC SVO rates investment credit risk based upon the issuer's credit profile. NAIC rating designations range from 1 to 6. A NAIC designation of 1 denotes obligations of the highest quality in which credit risk is at its lowest and the issuer's credit profile is stable; whereas a NAIC designation of 6 is assigned to obligations that are in or near default. Classes 1 and 2 are investment grade, Class 3 is medium quality and Classes 4, 5 and 6 are non-investment grade.

The following table sets forth the SVO ratings for our portfolio along with what we believe are the equivalent rating agency designations. Our presentation consists of long-term bonds, short-term securities and cash equivalents. The tables below also set forth the NAIC SVO ratings for our publicly traded and privately placed portfolios.

Credit Quality

		December 31,			
		2006		2005	
NAIC Classes	Rating Agency Equivalent Designation	Carrying Value	% of Total	Carrying Value	% of Total
		($ In Millions)			
1	Aaa/Aa/A	$27,819	68%	$27,958	68%
2	Baa	9,709	24	9,795	24
3	Ba	1,688	4	1,610	4
4	B	1,375	3	1,445	3
5	Caa and lower	252	1	266	1
6	In or near default	196	-	215	-
	Total	$41,039	100%	$41,289	100%

Publicly Traded Credit Quality

		December 31,			
		2006		2005	
NAIC Classes	Rating Agency Equivalent Designation	Carrying Value	% of Total	Carrying Value	% of Total
		($ In Millions)			
1	Aaa/Aa/A	$22,737	83%	$23,050	82%
2	Baa	3,946	14	4,238	15
3	Ba	503	2	475	2
4	B	194	1	187	1
5	Caa and lower	43	-	32	-
6	In or near default	59	-	85	-
	Total	$27,482	100%	$28,067	100%

Privately Placed Credit Quality

		December 31,			
		2006		2005	
NAIC Classes	Rating Agency Equivalent Designation	Carrying Value	% of Total	Carrying Value	% of Total
		($ In Millions)			
1	Aaa/Aa/A	$ 5,082	37%	$ 4,908	37%
2	Baa	5,763	42	5,557	42
3	Ba	1,185	9	1,135	9
4	B	1,181	9	1,258	10
5	Caa and lower	209	2	234	2
6	In or near default	137	1	130	-
	Total	$13,557	100%	$13,222	100%

We utilize our investments in the privately placed portfolio to enhance the value of the overall portfolio, increase diversification, and obtain higher yields than can be earned by investing in comparable quality public market securities. To control risk when utilizing privately placed securities, we rely upon broader access to

management information, stronger negotiated protective covenants, call protection features, and a higher level of collateralization than can customarily be achieved in the public market.

The strength of the privately placed portfolio is demonstrated by the predominance of NAIC Class 1 and 2 securities.

The following table sets forth by industry category the total bond portfolio, including short-term securities and cash equivalents, as of December 31, 2006:

Portfolio by Industry

	December 31, 2006					
	Public		Private		Total	
Industry Category	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	($ In Millions)					
Mortgage-backed securities	$ 15,349	56%	$ 528	4%	$ 15,877	39%
Finance	1,464	5	3,205	24	4,669	11
Government	3,850	14	16	-	3,866	9
Consumer services	714	3	2,004	15	2,718	7
Asset-backed securities	703	2	1,830	13	2,533	6
Utilities	1,345	5	1,090	8	2,435	6
Capital goods	797	3	1,525	11	2,322	6
Natural resources	725	3	964	7	1,689	4
Media	461	2	344	3	805	2
Consumer goods	263	1	485	4	748	2
Cash equivalent and short-term inv.	692	2	14	-	706	2
Healthcare	276	1	419	3	695	2
Transportation	204	1	411	3	615	1
Telecommunications	258	1	173	1	431	1
Retail	185	1	234	2	419	1
Technology	164	-	191	1	355	1
Conglomerates	32	-	124	1	156	-
Total	$ 27,482	100%	$ 13,557	100%	$ 41,039	100%

Mortgage-backed securities consist mainly of residential mortgage-backed securities and collateralized mortgage obligations (both primarily government-backed or government agency-backed) as well as commercial mortgage-backed securities of generally high quality, which are supported by well-diversified collateral. Only one other industry group, finance, exceeds 10% of the total bond portfolio. The finance industry group holdings are very diversified and include a number of issues, which are effectively supported by large pools of assets that are themselves diversified by industry and issuer.

Bond Portfolio Surveillance and Under-Performing Investments

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 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.

To identify under-performing investments, we conduct a quarterly management review of all bonds including those in default, not-in-good standing, or valued below 80% of cost. We consider 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 we 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) our 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. We consider the following factors in the evaluation of whether an interest related decline in value is other-than-temporary: (a) our near-term intent to sell; (b) our contractual and regulatory obligations; and (c) our ability to hold the investment until anticipated recovery of the cost of the investment.

Additionally, we consider qualitative and quantitative factors such as material declines in issuer revenues or margins, significant uncertainty regarding the issuer's industry, debt service coverage or cash flow ratios that fall below industry-specific thresholds, violation of financial covenants, trading of public securities at a substantial discount due to specific credit concerns, and other subjective factors that relate to the issuer.

We actively review the bond portfolio to estimate the likelihood and amount of financial defaults or write-downs in the portfolio and to make timely decisions as to the potential sale or renegotiation of terms of specific investments.

The NAIC defines under-performing bonds as those whose deferral of interest and/or principal payments are deemed to be caused by the inability of the obligor to make such payments as called for in the bond contract.

The following table sets forth bonds in NAIC Classes 5 and 6 split between performing and under-performing status:

NAIC Class 5 and 6 Bonds
Carrying Value

	December 31,	
	2006	2005
	(In Millions)	
Performing:		
Public	$ 8	$ 14
Private	152	185
Total performing	160	199
Under-performing:		
Public	94	103
Private	194	179
Total under-performing	288	282
Total	$ 448	$ 481

We employ 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, we had $13 million 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. The following is an analysis of the gross unrealized losses aggregated by bond category and length of time that the securities were in a continuous unrealized loss position.

	December 31, 2006					
	Less than 12 months			12 months or longer		
	Fair Value	Unrealized Losses	Number of Issuers	Fair Value	Unrealized Losses	Number of Issuers
	($ In Millions)					
U. S. government	$ 574	$ 3	53	$ 228	$ 8	153
States, territories and possessions	-	-	-	30	1	2
Political subdivisions of states, territories and possessions	-	-	-	2	-	1
Special revenue	1,544	14	41	1,001	29	107
Public utilities	164	2	34	494	18	65
Industrial and miscellaneous	4,422	58	586	6,064	213	560
Credit tenant loans	35	-	3	22	-	3
Parent, subsidiaries and affiliates	118	102	7	82	1	4
Total	$ 6,857	$ 179	724	$ 7,923	$ 270	895

The following is an analysis of the gross unrealized losses aggregated by bond category, length of time that the securities have been in a continuous unrealized loss position and investment grade.

	December 31, 2006					
	Less than 12 months			12 months or longer		
	Investment Grade	Below Investment Grade	Total	Investment Grade	Below Investment Grade	Total
U.S. government	$ 3	$ -	$ 3	$ 8	$ -	$ 8
States, territories and possessions	-	-	-	1	-	1
Political subdivisions of states, territories and possessions	-	-	-	-	-	-
Special revenue	14	-	14	29	-	29
Public utilities	2	-	2	17	1	18
Industrial and miscellaneous	33	25	58	189	24	213
Credit tenant loans	-	-	-	-	-	-
Parents, subsidiaries and affiliates	2	100	102	1	-	1
Total	$ 54	$ 125	$179	$ 245	$ 25	$ 270

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 $29 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. government investments, $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 one sector experiencing a disproportionate amount of losses as compared to other sectors. For these investments, $231 million was in an unrealized loss position for a period of 12 months or more.

Based on our policies for the evaluation of impairments, the Company did not consider these investments to be other-than-temporarily impaired as of December 31, 2006.

Mortgage Loans on Real Estate

Mortgage loans on real estate represented 14% of the total investments in the general account as of December 31, 2006. Mortgage loans on real estate consist of whole loans on commercial real estate and residential mortgage loan pools. Commercial mortgage loans as a percentage of the mortgage loan portfolio were 77% as of December 31, 2006.

Commercial Mortgage Loans

Our commercial mortgage loan portfolio, which includes mezzanine loans, consisted of fixed and variable rate loans on completed, income-producing properties.

At December 31, 2006 and 2005, 99% and 90%, respectively, of the commercial mortgage loan portfolio consisted of bullet loans. Bullet loans are loans that do not fully amortize over their term.

We had $559 million of bullet loans scheduled to mature during 2006, of which 18 loans totaling $299 million, or 54%, were paid in full, 2 loans for $157 million, or 28%, rolled over voluntarily, 5 loans for $103 million, or 18%, extended their maturity. We had one loan with a valuation allowance of $22 million and a carrying value of $0 million. Past experience with regard to bullet maturities, however, is not necessarily indicative of future results.

The maturities of our commercial mortgage loans are well diversified, and we carefully monitor and manage them in light of our liquidity position.

The following tables set forth the commercial mortgage loan portfolio by property type and geographic distribution:

Commercial Mortgage Loans by Property Type

	December 31,			
	2006		2005	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ In Millions)			
Office	$ 3,056	40%	$ 2,638	41%
Apartments	2,240	29	1,782	27
Industrial & other	1,093	14	816	12
Hotels	774	10	836	13
Retail	509	7	430	7
Total	$ 7,672	100%	$ 6,502	100%

Commercial Mortgage Loans by Geographic Distribution

	December 31,			
	2006		2005	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ In Millions)			
West	$ 2,413	32%	$ 1,927	30%
Northeast	1,409	18	936	14
Midwest	1,168	15	1,012	16
Southwest	1,051	14	944	14
Mid-Atlantic	790	10	779	12
Southeast	524	7	620	10
Canada	317	4	284	4
Total	$ 7,672	100%	$ 6,502	100%

Residential Mortgage Loans

The residential mortgage loan pools are pools of homogeneous residential mortgage loans substantially backed by Federal Housing Administration and Veterans Administration guarantees. These investments have provided excellent loss/risk experience. We impose rigorous investment standards focusing on governmental agency guarantees and seasoning. We also apply rigorous prepayment analysis as appropriate for each of these investments. As of December 31, 2006 and 2005, the carrying value of residential mortgage loan pools was $2.3 billion and $2.1 billion, respectively.

Mortgage Loan Portfolio Surveillance and Under-Performing Investments

We actively monitor, manage and directly service our commercial mortgage loan portfolio. We perform or review all aspects of loan origination and portfolio management, including lease analysis, property transfer analysis, economic and financial reviews, tenant analysis, and management of default and bankruptcy proceedings.

We re-value under-performing properties each year and re-inspect these properties at least every other year based on internal quality ratings. The criteria used to determine whether a current or potential problem exists includes borrower bankruptcies, major tenant bankruptcies, requests for restructuring, delinquent tax payments, late payments, loan-to-value or debt service coverage deficiencies, and overall vacancy levels.

The AVR contains a mortgage loan component, which totaled $75 million and $64 million as of December 31, 2006 and 2005, respectively. See "Investment Reserves".

Real Estate

Our real estate portfolio includes real estate properties we occupy and real estate we originally acquired as investments or through foreclosure or deed in lieu of foreclosure. As of December 31, 2006 and 2005, foreclosed real estate had a carrying value, net of write-downs, of $14 million.

The following tables illustrate the diversity of our real estate portfolio by property type and geographic distribution:

Real Estate by Property Type

	December 31,			
	2006		2005	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ In Millions)			
Office	$ 670	53%	$ 667	51%
Hotels	558	44	608	47
Industrial & other	30	2	30	2
Retail	8	1	8	1
Apartments [1]	(1)	-	(15)	(1)
Total	$ 1,265	100%	$ 1,298	100%

[1] Apartments category has a negative value due to encumbrance (non-recourse debt) activity. The negative carrying value of $1 million consists of five properties with $161 million in encumbrances and a combined book value of $160 million and a market value of $131 million as of December 31, 2006.

Real Estate by Geographic Distribution

	December 31,			
	2006		2005	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ In Millions)			
Northeast	$ 355	28%	$ 416	32%
West	268	21	222	17
Southeast	203	16	166	13
Southwest	195	15	222	17
Mid-Atlantic	186	15	193	15
Midwest	58	5	79	6
Total	$ 1,265	100%	$ 1,298	100%

As of December 31, 2006, our real estate portfolio consisted of 51 properties with a statement value of $1.3 billion of which $141 million was occupied by the Company. The portfolio uses leverage to maximize return with $287 million in third party non-recourse debt outstanding as of December 31, 2006. As of December 31, 2005, our real estate portfolio consisted of 55 properties with a statement value of $1.3 billion. The portfolio uses leverage to maximize returns with $185 million in third party non-recourse debt outstanding as of December 31, 2005.

We review individual property valuations on an annual basis. Asset managers establish our real estate valuations using third party valuation software which projects income on a lease-by-lease basis. Included in the valuation are budgeted expenses, leasing assumptions, and capital expenditures. We review these valuations for technical accuracy, methodology and the appropriateness of the assumed rates of return. Generally, external independent appraisers value a sample of properties each year. For 2006, this sample constituted 11 properties, or 20%, of the properties in the real estate portfolio. As of December 31, 2006, our real estate and other invested assets' AVR totaled $627 million.

Investment Reserves

We establish and record appropriate write-downs or investment reserves in accordance with statutory practice.

We determine the fair value of bonds in accordance with principles established by the SVO using criteria that include the net worth and capital structure of the borrower, the value of the collateral, the presence of additional credit support, and our evaluation of the borrower's ability to compete in a relevant market.

In the case of real estate and commercial mortgage loans, we make borrower and property-specific assessments as well.

In compliance with regulatory requirements, we maintain an AVR. The AVR is a contingency reserve to offset potential losses of stocks, bonds, mortgage loans, real estate investments, partnerships and LLCs, as well as credit-related declines.

As of December 31, 2006, the AVR totaled $1.7 billion, which represents a 16% increase from December 31, 2005. This increase was primarily due to current year after-tax realized and unrealized capital gains of $426 million related to common stock and $129 million related to real estate and other invested assets, partially offset by reserve withdrawals of $350 million related to common stock.

The following table presents the change in total asset valuation reserves for the years 2006 and 2005:

	Total Asset Valuation Reserves				
	Bonds, Preferred Stocks and Short-term Investments	Mortgage Loans	Real Estate and Other Invested Assets	Common Stock	Total
	(In Millions)				
Balance at December 31, 2004	$ 379	$ 62	$ 342	$ 357	$ 1,140
Reserve contributions (withdrawals) [1]	38	(2)	(5)	(218)	(187)
Transfers among categories	-	-	-	-	-
Net realized capital gains [2]	-	-	136	81	217
Net unrealized capital (losses) gains [3]	(2)	4	(11)	305	296
Net change to surplus [4]	36	2	120	168	326
Balance at December 31, 2005	415	64	462	525	1,466
Reserve (withdrawals)contributions[1]	(54)	20	4	(350)	(380)
Transfers among categories	(7)	7	32	(32)	-
Net realized capital gains (losses) [2]	14	(1)	101	265	379
Net unrealized capital gains (losses) [3]	55	(15)	28	161	229
Net change to surplus [4]	8	11	165	44	228
Balance at December 31, 2006	$ 423	$ 75	$ 627	$ 569	$ 1,694

[1]Amounts represent contributions calculated using a statutory formula plus amounts we deem necessary. The statutory formula provides for maximums that when exceeded cause a negative contribution. Additionally, these amounts represent the net impact on surplus for investment gains and losses not related to changes in interest rates.

[2]These amounts offset realized capital gains (losses), net of tax, that have been recorded in net income. Amounts include realized capital gains (losses), net of tax, on sales not related to interest rate fluctuations, such as repayments of mortgage loans at a discount, mortgage loan foreclosures, and real estate permanent write-downs.

[3]These amounts offset unrealized capital gains (losses), net of deferred tax, recorded as a change in surplus. Amounts include unrealized losses due to market value reductions of common stocks, bonds with NAIC quality rating of 6, and preferred stocks with NAIC quality ratings of 4 through 6, net of changes in the undistributed earnings of subsidiaries.

[4]Amounts represent the reserve contributions (note 1) plus transfers and amounts already recorded (notes 2 and 3). This net change in reserves is recorded as a change in surplus.

Quantitative and Qualitative Information about Market Risk

All non-guaranteed separate account assets and liabilities have been excluded from the following discussion since all market risks associated with those accounts are assumed by the contract holders.

Assets, such as bonds, stocks, mortgage loans on real estate, contract loans and derivatives are financial instruments, which are subject to the risk of market volatility and potential market disruptions. These risks may reduce the value of our financial instruments, or impact future cash flows and earnings from those instruments.

Our primary market risk exposure is changes in interest rates, which can cause changes in the fair value, cash flows, and earnings of certain financial instruments. To manage our exposure to interest rate changes, we use sophisticated quantitative asset/liability management techniques. Through asset/liability management we match the market sensitivity of assets with the liabilities they support. If these sensitivities are closely matched, the impact of interest rate changes is effectively offset on an economic basis as the change in value of the asset is offset by a corresponding change in the value of the supported liability. In addition, we invest a significant portion of our investment funds in high quality bonds in order to maintain and manage liquidity and reduce the risk of default in the portfolio.

Based upon the information and assumptions we used in our asset/liability analysis as of December 31, 2006, we estimate that a hypothetical immediate 10% increase in the 10-year treasury rate would decrease the net fair value of our financial instruments by $1.3 billion. Whereas, a hypothetical immediate 10% decrease in the rate, approximately 47 basis points, would increase the net fair value of our financial instruments by $1.4 billion. A significant portion of our liabilities, such as insurance policy and claim reserves, are not considered financial instruments and are excluded from the above analysis. Because of our asset/liability management, a corresponding change in fair values of these liabilities, based on the present value of estimated cash flows, would significantly offset the net change in fair value of assets estimated above.

Revenues and profitability from variable products will vary from period to period, driven in part by changes in the capital and equity markets. Specifically, certain fees we charge for variable annuity product separate accounts are based on the separate account asset levels. Separate account asset levels change as the underlying investments' market values change. Based on our experience, management believes that a 10% change in the equity markets would change the annualized fees by approximately $10 million.

The profitability of our individual variable annuity products can also vary as our obligation related to secondary guarantees changes with capital and equity market volatility. We offer secondary guarantees with substantially all new individual variable annuity products primarily in the form of guaranteed minimum death benefits ("GMDBs"), guaranteed minimum accumulation benefits ("GMAB") and guaranteed minimum income benefits ("GMIB"). The reserves related to these secondary guarantees amounted to $21.9 million at December 31, 2006. Specifically, these reserves approximate 0.29 % of the related account value. We paid $0.6 million for GMDBs in the year ended December 31, 2006. There were no payments for other secondary guarantees during 2006. We assess the risks associated with secondary guarantees in the overall context of risk management, but do not reinsure the risks associated with secondary guarantees.

In addition, certain of our investments are subject to credit risk. Credit risk is the risk that issuers of investments owned by us may default or that other parties may not be able to pay amounts due to us. We manage our investments to limit credit risk by diversifying our portfolio among various security types and industry sectors. We are exposed to credit-related losses in the event of non-performance by counterparties to various financial instruments. In order to minimize credit risk, we and certain of our counterparties require collateral to be posted in the amount owed under each transaction, subject to thresholds and minimum transfer amounts that are functions of the rating on the counterparty's long-term, unsecured, unsubordinated debt.

We regularly monitor counterparty credit ratings and exposures, investment positions and valuations, and the value of collateral posted to ensure counterparties are credit-worthy and the concentration of exposure is minimized. We monitor this exposure as part of our management of our overall credit exposures.

We use derivative financial instruments in the normal course of business to manage our investment risks, primarily to reduce interest rate and duration imbalances determined in asset/liability analyses. The investment risk is assessed on a portfolio basis and derivative financial instruments are not designated as a hedge with respect to a specific risk; therefore, the criteria for hedge accounting are not met. Our derivative hedging strategy employs a variety of instruments, including interest rate and currency swaps, options, including interest rate caps and floors, forward commitments, asset, equity and credit swaps, and financial futures.