MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATUTORY FINANCIAL STATEMENTS

As of March 31, 2012 and December 31, 2011 and for the three months ended
March 31, 2012 and 2011 and for the year ended December 31, 2011

Index to Condensed Consolidated Statutory Financial Statements

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)

	March 31, 2012	December 31, 2011	$ Change	% Change
	($ In Millions)			
Assets:				
Bonds	$ 59,660	$ 58,391	$ 1,269	2 %
Preferred stocks	358	343	15	4 %
Common stocks - subsidiaries and affiliates	3,951	4,052	(101)	(2) %
Common stocks - unaffiliated	625	583	42	7 %
Mortgage loans	14,247	13,283	964	7 %
Policy loans	9,899	9,768	131	1 %
Real estate	1,196	1,217	(21)	(2) %
Partnerships and limited liability companies	6,090	5,871	219	4 %
Derivatives and other invested assets	2,832	3,560	(728)	(20) %
Cash, cash equivalents and short-term investments	1,111	1,788	(677)	(38) %
Total invested assets	99,969	98,856	1,113	1 %
Investment income due and accrued	461	547	(86)	(16) %
Deferred income taxes	1,182	1,119	63	6 %
Other than invested assets	822	833	(11)	(1) %
Total assets excluding separate accounts	102,434	101,355	1,079	1 %
Separate account assets	51,717	47,245	4,472	9 %
Total assets	$ 154,151	$ 148,600	$ 5,551	4 %
Liabilities and Surplus:				
Policyholders' reserves	$ 74,054	$ 73,751	$ 303	- %
Liabilities for deposit-type contracts	4,680	4,622	58	1 %
Contract claims and other benefits	404	343	61	18 %
Policyholders' dividends	1,341	1,335	6	- %
General expenses due or accrued	876	901	(25)	(3) %
Federal income taxes	13	102	(89)	(87) %
Asset valuation reserve	1,709	1,731	(22)	(1) %
Securities sold under agreements to repurchase	3,788	3,770	18	- %
Commercial paper	250	250	-	- %
Derivative collateral	1,278	1,776	(498)	(28) %
Other liabilities	2,158	1,365	793	58 %
Total liabilities excluding separate accounts	90,551	89,946	605	1 %
Separate account liabilities	51,708	47,237	4,471	9 %
Total liabilities	142,259	137,183	5,076	4 %
Surplus	11,892	11,417	475	4 %
Total liabilities and surplus	$ 154,151	$ 148,600	$ 5,551	4 %

See notes to condensed consolidated statutory financial statements

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	$ Change	% Change
	($ In Millions)			
Revenue:				
Premium income	$ 3,745	$ 3,106	$ 639	21 %
Net investment income	1,270	1,162	108	9 %
Fees and other income	165	166	(1)	(1) %
Total revenue	5,180	4,434	746	17 %
Benefits and expenses:				
Policyholders' benefits	3,037	2,847	190	7 %
Change in policyholders' reserves	801	575	226	39 %
General insurance expenses	360	310	50	16 %
Commissions	141	130	11	8 %
State taxes, licenses and fees	51	45	6	13 %
Total benefits and expenses	4,390	3,907	483	12 %
Net gain from operations before dividends and federal income taxes	790	527	263	50 %
Dividends to policyholders	306	282	24	9 %
Net gain from operations before federal income taxes	484	245	239	98 %
Federal income tax (benefit) expense	(86)	17	(103)	(606) %
Net gain from operations	570	228	342	150 %
Net realized capital losses after tax and transfers to interest maintenance reserve	(149)	(46)	(103)	(224) %
Net income	$ 421	$ 182	$ 239	131 %

See notes to condensed consolidated statutory financial statements

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF CHANGES IN SURPLUS
(UNAUDITED)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	$ Change	% Change
	($ In Millions)			
Surplus, beginning of year	$ 11,417	$ 10,352	$ 1,065	10 %
Increase (decrease) due to:				
Net income	421	182	239	131 %
Change in net unrealized capital (losses) gains, net of tax	(223)	118	(341)	(289) %
Change in net unrealized foreign exchange capital gains, net of tax	20	38	(18)	(47) %
Change in special surplus funds - net deferred tax assets	-	(14)	14	100 %
Change in other net deferred income taxes	(147)	(76)	(71)	(93) %
Change in nonadmitted assets	7	39	(32)	(82) %
Change in asset valuation reserve	22	(56)	78	139 %
Change in surplus notes	399	-	399	NM
Prior period adjustments	(24)	(11)	(13)	(118) %
Other	-	1	(1)	(100) %
Net increase	475	221	254	115 %
Surplus, end of period	$ 11,892	$ 10,573	$ 1,319	12 %

NM = not meaningful

See notes to condensed consolidated statutory financial statements.

MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATUTORY STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
	(In Millions)	
Cash from operations:		
Premium and other income collected	$ 3,970	$ 14,538
Net investment income	1,271	4,822
Benefit payments	(2,977)	(10,799)
Net transfers to separate accounts	(529)	(786)
Commissions and other expenses	(566)	(2,264)
Dividends paid to policyholders	(300)	(1,208)
Federal and foreign income taxes (paid) recovered	(39)	64
Net cash provided by operating activities	830	4,367
Cash from investments:		
Proceeds from investments sold, matured or repaid:		
Bonds	4,018	20,173
Common stocks - unaffiliated	34	105
Mortgage loans	461	2,163
Real estate	12	119
Partnerships	242	1,111
Preferred and affiliated common stocks	379	207
Other	(203)	893
Total investment proceeds	4,943	24,771
Cost of investments acquired:		
Bonds	(5,117)	(23,258)
Common stocks - unaffiliated	(33)	(444)
Mortgage loans	(1,401)	(3,266)
Real estate	(11)	(255)
Partnerships	(346)	(1,411)
Preferred and affiliated common stocks	(22)	(742)
Other	553	33
Total investments acquired	(6,377)	(29,343)
Net increase in policy loans	(130)	(523)
Net cash used in investing activities	(1,564)	(5,095)
Cash from financing and other sources:		
Net deposits on deposit-type contracts	13	909
Cash provided from surplus notes	399	-
Net securities sold (bought) under agreements to repurchase	18	(393)
Change in derivative collateral	(497)	343
Other cash provided	124	67
Net cash from financing and other sources	57	926
Net change in cash, cash equivalents and short-term investments	(677)	198
Cash, cash equivalents and short-term investments, beginning of year	1,788	1,590
Cash, cash equivalents and short-term investments, end of period	$ 1,111	$ 1,788

See notes to condensed consolidated statutory financial statements

1. Nature of operations

MassMutual Financial Group (MMFG) is a global, diversified financial services organization comprised of Massachusetts Mutual Life Insurance Company (MassMutual) and its subsidiaries. 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 (collectively, the Company): C.M. Life Insurance Company (C.M. Life) as well as its indirect subsidiary, MML Bay State Life Insurance Company (MML Bay State), which is wholly owned by C.M. Life. All intercompany transactions and balances for these consolidated entities have been eliminated. Other entities comprising MMFG 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 March 31, 2012, and for the three months ended March 31, 2012 and 2011 are unaudited. These condensed consolidated statutory financial statements reflect adjustments, consisting only of normal accruals, which are, in the opinion of management, necessary for the fair presentation of the financial position, results of operations 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 2011 audited year-end financial statements as these condensed consolidated statutory financial statements disclose only significant changes from year end 2011. 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, 2011 and the Condensed Consolidated Statutory Statements of Cash Flows for the year ended December 31, 2011 have been derived from the audited consolidated financial statements at that date, but do not include all of the information and footnotes required by statutory accounting practices for complete financial statements.

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

Statutory accounting practices are different in some respects from financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP). The more significant differences between statutory accounting principles and U.S. GAAP are as follows: (a) bonds are generally carried at amortized cost, whereas U.S. GAAP generally reports bonds at fair value; (b) changes in the fair value of derivative financial instruments are recorded as changes in surplus, whereas U.S. GAAP generally reports these changes as revenue unless deemed an effective hedge; (c) embedded derivatives are recorded as part of the underlying contract, whereas U.S. GAAP would identify and bifurcate certain embedded derivatives from the underlying contract or security and account for them separately at fair value; (d) majority-owned noninsurance subsidiaries and variable interest entities where the Company is the primary beneficiary and certain other controlled entities are accounted for using the equity method, whereas U.S. GAAP would consolidate these entities; (e) changes in the balances of deferred income taxes, which provide for book versus tax temporary differences, are subject to limitation and are charged to surplus, whereas U.S. GAAP would generally include the change in deferred taxes in net income; (f) certain group annuity and variable universal life contracts, which do not pass-through all investment gains to contract holders, are maintained in the separate accounts and are presented on a single line in the statutory financial statements, whereas U.S. GAAP reports these contracts in the general investments of the Company; (g) assets are reported at admitted asset value and assets designated as nonadmitted are excluded through a charge against surplus, whereas U.S. GAAP recognizes all assets, subject to valuation allowances; (h) statutory policy reserves are based upon prescribed methods, such as the Commissioners' Reserve Valuation Method, Commissioners' Annuity Reserve Valuation Method or net level premium method, and prescribed statutory mortality, morbidity and interest assumptions, whereas U.S. GAAP reserves would generally be based upon the net level premium method or the estimated gross margin method with estimates of future mortality, morbidity, persistency and interest assumptions; (i) policyholder reserves are presented net of reinsurance ceded, unearned ceded premium and unpaid ceded claims whereas U.S. GAAP would report these reinsurance balances as an asset; (j) an asset valuation reserve (AVR) is reported as a contingency reserve to stabilize surplus against fluctuations in the statement value of common stocks, real estate investments, partnerships and limited liability companies (LLCs) as well as credit-related declines in the value of bonds, mortgage loans and certain derivatives to the extent AVR is greater than zero for the appropriate asset category, whereas U.S. GAAP does not record this reserve; (k) after-tax realized capital gains and losses that result from changes in the overall level of interest rates for all types of fixed-income investments and interest-related hedging activities are deferred into the interest maintenance reserve (IMR) and amortized into revenue, whereas U.S. GAAP reports these gains and losses as revenue; (l) changes to the mortgage loan valuation allowance are recognized in net unrealized capital gains (losses) in surplus, whereas U.S. GAAP reports these changes in net realized capital gains (losses); (m) a prepaid pension asset and/or a liability is recorded for the difference between the fair value of the pension and other postretirement plan assets and the accumulated benefit obligation (which excludes nonvested employees) with the change recorded in surplus, whereas for U.S. GAAP purposes, the over/underfunded status of a plan, which is the difference between the fair value of the plan assets and the projected benefit obligation, is recorded as an asset or liability with the change recorded through accumulated other comprehensive income; (n) surplus notes are reported in surplus, whereas U.S. GAAP would report these notes as liabilities; (o) payments received for universal and variable life insurance products, certain variable and fixed deferred annuities and group annuity contracts are reported as premium income and corresponding change in reserves, whereas U.S. GAAP would treat these payments as deposits to policyholders' account balances; (p) certain acquisition costs, such as commissions and other variable costs, directly related to acquiring new business are charged to current operations as incurred, whereas U.S. GAAP generally capitalizes these expenses and amortizes them based on profit emergence over the expected life of the policies or over the premium payment period; and (q) comprehensive income is not presented, whereas U.S. GAAP presents changes in unrealized capital gains and losses and foreign currency translations as other comprehensive income.

The preparation of financial statements requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities, the disclosure of assets and liabilities as of the date of the condensed consolidated statutory financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant estimates include those used in determining the carrying values of investments including the amount of mortgage loan investment valuation reserves and other-than-temporary impairment(s) (OTTI), the value of the investment in MassMutual Holding LLC (MMHLLC), the liabilities for policyholders' reserves, the determination of deferred tax assets (DTAs), and the liability for taxes and litigation contingencies. Future events including, but not limited to, changes in the level of mortality, morbidity, interest rates, persistency, asset valuations and defaults could cause results to differ from the estimates used in the condensed consolidated statutory financial statements. Although some variability is inherent in these estimates, management believes the amounts presented are appropriate.

For the full description of accounting policies, see *Note 2* "*Summary of significant accounting policies"* of Notes to Consolidated Statutory Financial Statements included in MassMutual's 2011 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. The following summarizes corrections of prior year errors for the three months ended March 31, 2012:

	Increase (decrease) to: Prior Year Income	Increase (decrease) to: Prior Year Surplus	Correction of Asset or Liability Balances
	(In Millions)		
Policyholders' reserves	$ (13)	$ (13)	$ 13
General insurance expenses	(11)	(11)	11
Total	$ (24)	$ (24)	$ 24

The following summarizes corrections of prior year errors for the three months ended March 31, 2011:

	Increase (decrease) to: Prior Year Income	Increase (decrease) to: Prior Year Surplus	Correction of Asset or Liability Balances
	(In Millions)		
Partnership income	$ (5)	$ (5)	$ 5
Policyholders' reserves	(4)	(4)	4
Other	(2)	(2)	2
Total	$ (11)	$ (11)	$ 11

Certain 2011 balances within these financial statements have been reclassified to conform to the current year presentation.

3. New accounting standards

a. Adoption of new accounting standards

In March 2011, the NAIC issued revisions to Statement of Statutory Accounting Principles (SSAP) No. 100, “Fair Value Measurements,” which requires additional fair value disclosures. These additional disclosures include a disclosure of the fair value hierarchy of items that are disclosed with a fair value measurement but are not valued at fair value in the balance sheet. Also, companies are required to disclose purchases, sales, issuances and settlements on a gross basis for fair value measurement categorized in Level 3 of the fair value hierarchy. These new requirements were effective January 1, 2012. The adoption of the other requirements of this guidance did not have a significant impact on the Company’s financial statements.

In November 2011, the NAIC issued SSAP No. 101, “Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10.” This statement establishes statutory accounting principles for current and deferred federal and foreign income taxes and current state income taxes. This statement supersedes SSAP No. 10, “Income Taxes” and SSAP No. 10R, “Income Taxes, A Temporary Replacement of SSAP No. 10,” which expired on December 31, 2011. SSAP No. 101, which was effective on January 1, 2012, has: 1) restricted the ability to use the 3 years/15 percent of surplus admission rule to those reporting entities that meet the modified Risk Based Capital (RBC) ratio (Ex-DTA RBC ratio) threshold, 2) changed the recognition threshold for recording tax contingency reserves from a probable liability standard to a more-likely-than-not liability standard, 3) required the disclosure of tax planning strategies that relate to reinsurance and, 4) required consideration of reversal patterns of DTA and Deferred Tax Liabilities (DTLs) in determining the extent to which DTLs could offset DTAs on the balance sheet. There was no cumulative effect of adopting this standard.

b. Future adoption of new accounting standards

In March 2012, the NAIC issued SSAP No. 102 “Accounting for Pensions A Replacement of SSAP No. 89.” This SSAP will require the pension liability to include the unfunded projected benefit obligation, including non-vested participants. The adoption of this SSAP is expected to create an additional pension “transition liability” of approximately $45 million. The Company may elect, on an individual plan basis, to phase in this transition liability over a period of 10 years. This new requirement is effective January 1, 2013.

In March 2012, the NAIC issued SSAP No. 92 “Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14.” Under this SSAP, participants not yet eligible to retire will be included in the accumulated postretirement benefit obligation. The accumulated postretirement benefit obligation is already recorded on a GAAP basis on the books of MMHLLC, a subsidiary of the Company. The GAAP equity of this subsidiary is included in admitted assets of MassMutual for statutory purposes. Therefore, there is no impact from the adoption of this SSAP besides disclosure. This new requirement is effective January 1, 2013.

In March 2012, the NAIC issued SSAP No. 103, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” This SSAP will supersede SSAP No. 91R,”Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” and incorporates the U.S. GAAP guidance of the Financial Accounting Standards Board (FASB) Statement No. 166, “Accounting for Transfers and Servicing of Financial Assets, an amendment of FASB Statement No. 140,” and Accounting Standards Update (ASU) No. 2011-03, “Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements,” with modifications to conform the guidance to statutory accounting concepts. These modifications are primarily related to concepts that are not applicable or consistent with statutory accounting (e.g., rejection of U.S. GAAP consideration for consolidated affiliates, references to GAAP standards, methods, references and guidance not adopted for/applicable to statutory accounting). The Company is required to adopt the guidance prospectively as of January 1, 2013. Early adoption is not permitted. Adoption of this guidance is not expected to 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:

	March 31, 2012			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Millions)			
U. S. government and agencies	$ 9,039	$ 1,300	$ 1	$ 10,338
All other governments	117	33	-	150
States, territories and possessions	1,417	154	2	1,569
Special revenue	2,466	371	2	2,835
Industrial and miscellaneous	41,050	3,247	730	43,567
Parent, subsidiaries and affiliates	5,571	313	199	5,685
Total	$ 59,660	$ 5,418	$ 934	$ 64,144

Note: The unrealized losses exclude $30 million of losses embedded in the carrying value, which include $24 million from NAIC Category 6 bonds and $6 million from RMBS and CMBS whose ratings were obtained from outside modelers.

	December 31, 2011			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Millions)			
U. S. government and agencies	$ 9,813	$ 1,929	$ -	$ 11,742
All other governments	112	36	-	148
States, territories and possessions	1,362	138	3	1,497
Special revenue	2,467	368	1	2,834
Industrial and miscellaneous	39,328	3,215	1,008	41,535
Parent, subsidiaries and affiliates	5,309	260	235	5,334
Total	$ 58,391	$ 5,946	$ 1,247	$ 63,090

Note: The unrealized losses exclude $34 million of losses embedded in the carrying value, which include $27 million from NAIC Category 6 bonds and $7 million from RMBS and CMBS whose ratings were obtained from outside modelers.

The proceeds from sales of bonds were $1,625 million for the three months ended March 31, 2012 and $2,781 million for the three months ended March 31, 2011.

The following is an analysis of the fair values and gross unrealized losses aggregated by bond category and length of time that the securities were in a continuous unrealized loss position as of March 31, 2012 and December 31, 2011:

	March 31, 2012					
	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 and agencies	$ 472	$ 1	3	$ -	$ -	-
States, territories and possessions	-	-	-	34	1	1
Special revenue	45	1	90	-	-	-
Industrial and miscellaneous	4,742	160	475	3,847	587	772
Parent, subsidiaries and affiliates	436	31	16	677	183	20
Total	$ 5,695	$ 193	584	$ 4,558	$ 771	793

Note: The unrealized losses include $30 million of losses embedded in the carrying value, which include $24 million from NAIC Category 6 bonds and $6 million from RMBS and CMBS whose ratings were obtained from outside modelers.

	December 31, 2011					
	Less Than 12 Months			12 Months or Longer		
	Fair Value	Unrealized Losses	Number of Issuers	Fair Value	Unrealized Losses	Number of Issuers
	($ In Millions)					
States, territories and possessions	$ 67	$ 1	6	$ 32	$ 2	1
Special revenue	28	1	79	-	-	-
Industrial and miscellaneous	5,079	219	658	3,844	810	785
Parent, subsidiaries and affiliates	2,222	82	26	546	166	18
Total	$ 7,396	$ 303	769	$ 4,422	$ 978	804

Note: The unrealized losses include $34 million of losses embedded in the carrying value, which include $27 million from NAIC Category 6 bonds and $7 million from RMBS and CMBS whose ratings were obtained from outside modelers.

Based on the Company's policies, as of March 31, 2012 and December 31, 2011, the Company has not deemed these unrealized losses to be other than temporary because the carrying value of the investments is expected to be realized based on the Company's analysis of fair value or, for loan-backed and structured securities, based on present value of cash flows, and the Company has the ability and intent not to sell these investments until recovery, which may be maturity.

As of March 31, 2012, investments in structured and loan-backed securities that had unrealized losses, which were not recognized in earnings, had a fair value of $3,999 million. Securities in an unrealized loss position for less than 12 months had a fair value of $1,474 million and unrealized losses of $51 million. Securities in an unrealized loss position for greater than 12 months had a fair value of $2,525 million and unrealized losses of $424 million. These securities were primarily categorized as industrial and miscellaneous and 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 three months ended March 31, 2012 and year ended December 31, 2011 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.

For the past few years, market conditions for Alt-A and subprime investments have been unusually weak due to higher delinquencies, reduced home prices and reduced refinancing opportunities. This market turbulence has spread to other credit markets. It is unclear how long it will take for a return to conditions in effect prior to that time.

As of March 31, 2012 and December 31, 2011, RMBS had a total carrying value of $3,935 million and $4,149 million and a fair value of $3,853 million and $3,890 million, respectively. As of March 31, 2012 and December 31, 2011, Alt-A and subprime RMBS had a total carrying value of $2,263 million and $2,420 million and a fair value of $1,965 million and $1,938 million, of which approximately 35% and 33%, based on fair value, was classified as Alt-A, respectively.

b. Common stocks - subsidiaries and affiliates

Common stocks of unconsolidated subsidiaries, primarily MMHLLC, are accounted for using the statutory equity method. The Company accounts for the value of its investment in its subsidiary, MMHLLC, at its underlying U.S. GAAP net equity 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 Division has affirmed the statutory recognition of the Company’s application of the NCI and ARE guidelines in MMHLLC’s statutory carrying value. However, the Company has limited this recognition to $1,982 million and $2,015 million, respectively, as of March 31, 2012 and December 31, 2011. The current fair value of MMHLLC remains significantly greater than its statutory carrying amount.

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 AAArdvark IV Funding Limited (AAArdvark IV) in connection with the investment made by TSL (USA) Inc., an affiliate of National Australia Bank Limited, in AAArdvark 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 seeks 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 seeks 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 defendant’s motion to dismiss and denied plaintiff’s motion for partial summary judgment. OFI believes it has substantial defenses to the remaining claims 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 July 15, 2011, a lawsuit was filed in New York State Supreme Court against OFI, HVAMC and AAArdvark I Funding Limited (AAArdvark I), in connection with investments made by TSL (USA) Inc. and other investors in AAArdvark 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 defendant’s motion to dismiss. OFI believes it has substantial defenses to the remaining claims 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 November 9, 2011, a lawsuit was filed in New York State Supreme Court against OFI, HVAMC and AAArdvark XS Funding Limited (AAArdvark XS) in connection with the investment made by Scaldis Capital Limited, predecessor in interest to plaintiff Royal Park Investments SA/NV, in AAArdvark XS. The complaint alleges breach of contract against the defendants and seeks compensatory damages and an award of attorney fees and litigation expenses. OFI believes it has substantial defenses and will 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.

Beyond these matters, MMHLLC's subsidiaries are involved in litigation and investigations arising in the ordinary course of the subsidiaries' businesses. 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 financial position or liquidity, because of the uncertainties involved with some of these matters, future revisions to the estimates of the potential liability could materially affect the Company's financial position.

c. Mortgage loans

Mortgage loans are comprised of commercial mortgage loans and residential mortgage loan pools. The carrying value of mortgage loans was $14,247 million, net of valuation allowances of $30 million as of March 31, 2012. The carrying value of mortgage loans was $13,283 million, net of valuation allowances of $48 million as of December 31, 2011.

The Company's commercial mortgage loans primarily finance various types of commercial real estate properties throughout the U.S. and Canada. The Company holds commercial mortgage loans for which it is the primary lender and mezzanine loans for which the Company is a secondary lender, often for a commercial property in development. Residential mortgage loan pools 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:

	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In Millions)			
Commercial mortgage loans				
Primary lender	$ 11,663	$ 11,629	$ 10,832	$ 10,847
Mezzanine loans	31	30	42	46
Total commercial mortgage loans	11,694	11,659	10,874	10,893
Residential mortgage loans				
FHA insured and VA guaranteed	2,532	2,508	2,386	2,372
Other residential loans	21	22	23	23
Total residential mortgage loans	2,553	2,530	2,409	2,395
Total mortgage loans	$ 14,247	$ 14,189	$ 13,283	$ 13,288

The following presents a summary of the Company's mortgage loans on which a valuation allowance has been recorded:

	March 31, 2012				
	Carrying Value	Average Carrying Value	Unpaid Principal Balance	Valuation Allowance	Interest Income
	(In Millions)				
Commercial mortgage loans					
Primary lender	$ 53	$ 53	$ 68	$ (15)	$ 1
Mezzanine loans	6	4	21	(15)	-
Total	$ 59	$ 57	$ 89	$ (30)	$ 1

	December 31, 2011				
	Carrying Value	Average Carrying Value	Unpaid Principal Balance	Valuation Allowance	Interest Income
	(In Millions)				
Commercial mortgage loans					
Primary lender	$ 85	$ 93	$ 103	$ (19)	$ 7
Mezzanine loans	1	4	31	(29)	-
Total	$ 86	$ 97	$ 134	$ (48)	$ 7

The Company had impaired commercial mortgage loans with no related valuation allowance recorded with unpaid principal balances of $15 million as of March 31, 2012 and $40 million as of December 31, 2011.

The following presents changes in the valuation allowance recorded for the Company's mortgage loans:

	Three Months Ended					
	March 31, 2012			March 31, 2011		
	Commercial					
	Primary Lender	Mezzanine	Total	Primary Lender	Mezzanine	Total
	(In Millions)					
Beginning balance	$ (19)	$ (29)	$ (48)	$ (79)	$ (61)	$ (140)
Additions	-	-	-	(1)	(8)	(9)
Decreases	4	5	9	8	1	9
Write-downs	-	9	9	1	37	38
Ending balance	$ (15)	$ (15)	$ (30)	$ (71)	$ (31)	$ (102)

d. Net investment income

Net investment income was derived from the following sources:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In Millions)	
Bonds	$ 761	$ 712
Preferred stocks	5	3
Common stocks - subsidiaries and affiliates	2	2
Common stocks - unaffiliated	3	1
Mortgage loans	186	172
Policy loans	174	166
Real estate	47	38
Partnerships and LLCs	87	97
Derivatives	58	27
Cash, cash equivalents and short-term investments	2	2
Other	1	-
Subtotal investment income	1,326	1,220
Amortization of the IMR	38	31
Investment expenses	(94)	(89)
Net investment income	$ 1,270	$ 1,162

e. Net realized capital gains and losses

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In Millions)	
Bonds	$ 40	$ 39
Preferred stocks	7	-
Common stocks - subsidiaries and affiliates	33	1
Common stocks - unaffiliated	3	1
Mortgage loans	(5)	(40)
Real estate	5	1
Partnerships and LLCs	1	(14)
Derivatives and other	(166)	(105)
Federal and state taxes	(41)	61
Net realized capital gains (losses) before deferral to the IMR	(123)	(56)
Net (gains) losses deferred to the IMR	(106)	(3)
Taxes	80	13
Net after tax (gains) losses deferred to the IMR	(26)	10
Net realized capital gains (losses)	$ (149)	$ (46)

The IMR balance was a liability of $564 million as of March 31, 2012 and $582 million as of December 31, 2011.

OTTI which are included in the net realized capital gains (losses) above consisted of the following:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In Millions)	
Bonds	$ (48)	$ (35)
Common stock	-	(1)
Mortgage loans	(9)	(41)
Partnerships and LLCs	(12)	(1)
Total OTTI	$ (69)	$ (78)

For the quarters ended March 31, 2012 and 2011, the Company recognized $40 million and $31 million, respectively, of OTTI on structured and loan backed securities primarily due to the present value of cash flows expected to be less than the amortized cost.

f. Derivative financial instruments

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 that increased the Company's credit exposure by a net notional amount of $2,345 million as of March 31, 2012 and $2,393 million as of December 31, 2011. Of this amount, $166 million as of March 31, 2012 and $214 million as of December 31, 2011, 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 require collateral to be posted in the amount owed under each transaction, subject to threshold and minimum transfer amounts that are functions of the rating on the counterparty's long-term, unsecured, unsubordinated debt. Additionally, in many instances, the Company enters agreements with counterparties that 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. Collateral pledged by the counterparties was $2,092 million as of March 31, 2012 and $2,883 million as of December 31, 2011. In the event of default the full market value exposure at risk in a net gain position, net of offsets and collateral was $35 million as of March 31, 2012 and $100 million as of December 31, 2011. The amount at risk using NAIC prescribed rules was $117 million as of March 31, 2012 and $132 million as of December 31, 2011. 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.

If amounts are due from the counterparty, they are reported as an asset. If amounts are due to the counterparty, they are reported as a liability. Negative values in the carrying value of a particular derivative category can result from a counterparty's right to offset carrying value positions in other derivative categories.

The following summarizes the carrying values and notional amounts of the Company's derivative financial instruments:

	March 31, 2012			
	Assets		Liabilities	
	Carrying Value	Notional Amount	Carrying Value	Notional Amount
	(In Millions)			
Interest rate swaps	$ 2,329	$ 108,583	$ 274	$ 10,887
Options	324	7,847	(18)	323
Currency swaps	108	1,214	66	623
Forward contracts	9	2,979	5	1,200
Credit default swaps	23	1,294	(1)	68
Financial futures - long positions	-	2,158	-	-
Financial futures - short positions	-	1,008	-	-
Total	$ 2,793	$ 125,083	$ 326	$ 13,101

	December 31, 2011			
	Assets		Liabilities	
	Carrying Value	Notional Amount	Carrying Value	Notional Amount
	(In Millions)			
Interest rate swaps	$ 2,729	$ 105,066	$ 298	$ 12,495
Options	603	6,201	(73)	980
Currency swaps	135	963	81	877
Forward contracts	53	4,155	(1)	66
Credit default swaps	37	1,334	(2)	68
Financial futures - long positions	-	2,051	-	-
Financial futures - short positions	-	1,276	-	-
Total	$ 3,557	$ 121,046	$ 303	$ 14,486

In most cases, notional amounts are not a measure of the Company's credit exposure. The exceptions to this rule are mortgage-backed forwards and credit default swaps that sell protection. In the event of default, the Company is exposed to the notional amounts of $2,345 million as of March 31, 2012 and $2,393 million as of December 31, 2011. Collateral is exchanged for all derivative types except mortgage-backed forwards. For all other contracts, the amounts exchanged are calculated on the basis of the notional amounts and the other terms of the instruments, which relate to interest rates, exchange rates, security prices, financial or other indices.

The following summarizes the Company's net realized gains (losses) on closed contracts and change in net unrealized gains (losses) on the open contracts by derivative type:

	Three Months Ended			
	March 31, 2012		March 31, 2011	
	Net Realized Gains (Losses) Closed Contracts	Change In Net Unrealized Gains (Losses) Open Contracts	Net Realized Gains (Losses) Closed Contracts	Change In Net Unrealized Gains (Losses) Open Contracts
	(In Millions)			
Interest rate swaps	$ (25)	$ (377)	$ (12)	$ 1
Currency swaps	(1)	(12)	(3)	(35)
Options	68	(413)	(52)	(29)
Credit default swaps	1	(18)	2	(4)
Forward contracts	60	(49)	17	(89)
Financial futures - short positions	(95)	-	(25)	-
Financial futures - long positions	(175)	-	(30)	-
Total	$ (167)	$ (869)	$ (103)	$ (156)

5. Fair value of financial instruments

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

	March 31, 2012					December 31, 2011	
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Carrying Value	Fair Value
				(In Millions)			
Financial assets:							
Bonds							
U. S. government and agencies	$ 9,039	$ 10,338	$ -	$ 10,318	$ 20	$ 9,813	$ 11,742
All other governments	117	150	-	121	29	112	148
States, territories and possessions	1,417	1,569	-	1,564	5	1,362	1,497
Special revenue	2,466	2,835	-	2,834	1	2,467	2,834
Industrial and miscellaneous	41,050	43,567	-	29,022	14,545	39,328	41,535
Parent, subsidiaries and affiliates	5,571	5,685	-	1,677	4,008	5,309	5,334
Preferred stocks	358	347	11	76	260	343	334
Common stock - unaffiliated	625	625	398	61	166	583	583
Common stock - affiliated (1)	337	337	-	305	32	639	639
Mortgage loans - commerical	11,694	11,659	-	-	11,659	10,874	10,893
Mortgage loans - residential	2,553	2,530	-	-	2,530	2,409	2,395
Cash, cash equivalents and short-term investments	1,111	1,111	252	859	-	1,788	1,788
Derivatives							
Forward contracts	9	9	-	9	-	53	53
Interest rate swaps	2,329	2,329	-	2,329	-	2,729	2,729
Currency swaps	108	108	-	108	-	135	135
Credit default swaps	23	23	-	23	-	37	37
Options	324	324	-	324	-	603	603
Financial liabilities:							
Commercial paper	250	250	-	250	-	250	250
Securities sold under agreements to repurchase	3,788	3,788	-	3,788	-	3,770	3,770
Funding agreements	3,366	3,465	-	-	3,465	3,344	3,457
Investment-type insurance contracts							
Group annuity investment contracts	7,223	8,234	-	-	8,234	7,315	7,915
Individual annuity investment contracts	7,967	8,571	-	-	8,571	8,212	8,853
Supplementary investment contracts	1,053	1,054	-	-	1,054	1,017	1,018
Derivatives							
Forward contracts	5	5	-	5	-	(1)	(1)
Interest rate swaps	274	274	-	274	-	298	298
Currency swaps	66	66	-	66	-	81	81
Credit default swaps	(1)	(1)	-	(1)	-	(2)	(2)
Options	(18)	(18)	-	(18)	-	(73)	(73)

(1) *Common stock - affiliated does not include MMHLLC which had a statutory carrying value of $3,614 million as of March 31, 2012 and $3,413 million as of December 31, 2011.*

The use of different assumptions or valuation methods may have a material impact on the estimated fair value amounts.

The weighted average fair value of outstanding derivative financial instrument assets for the period ended March 31, 2012 was $2,942 million and $2,556 million for the period ended March 31, 2011. The weighted average fair value of outstanding derivative financial instrument liabilities for the period ended March 31, 2012 was $277 million and $183 million for the period ended March 31, 2011.

Fair value hierarchy

For the period ended March 31, 2012, there were no significant changes to the Company's valuation techniques.

The following presents the Company's fair value hierarchy for financial instruments carried at fair value:

	March 31, 2012				
	Level 1	Level 2	Level 3	Netting (1)	Total
	(In Millions)				
Financial assets:					
Bonds					
Industrial and miscellaneous	$ -	$ 15	$ 45	$ -	$ 60
Common stock - unaffiliated	398	61	166	-	625
Common stock - affiliated (2)	-	305	32	-	337
Cash equivalents and short-term investments (3)	-	859	-	-	859
Separate account assets (4)	37,325	11,923	372	-	49,620
Derivatives					
Forward contracts	-	24	-	(15)	9
Interest rate swaps	-	7,256	-	(4,927)	2,329
Currency swaps	-	173	-	(65)	108
Credit default swaps	-	34	-	(11)	23
Options	-	370	-	(46)	324
Total financial assets carried at fair value	$ 37,723	$ 21,020	$ 615	$ (5,064)	$ 54,294
Financial liabilities:					
Derivatives					
Forward contracts	$ -	$ 20	$ -	$ (15)	$ 5
Interest rate swaps	-	5,201	-	(4,927)	274
Currency swaps	-	131	-	(65)	66
Credit default swaps	-	10	-	(11)	(1)
Options	-	28	-	(46)	(18)
Total financial liabilities carried at fair value	$ -	$ 5,390	$ -	$ (5,064)	$ 326

(1) *Netting adjustments represent offsetting positions that may exist under a master-netting agreement with a counterparty where amounts due from the counterparty are offset against amounts due to the counterparty.*

(2) *Common stock – affiliated does not include MMHLLC which had a statutory carrying value of $3,614 million.*

(3) *Does not include cash of $252 million.*

(4) *$999 million of book value separate account assets and $1,098 million of market value separate account assets are not carried at fair value and, therefore, are not included in this table.*

For the period ended March 31, 2012 there were no transfers between Level 1 and Level 2. Any necessary transfers would have occurred at the beginning of the period.

	December 31, 2011				
	Level 1	Level 2	Level 3	Netting [(1)]	Total
	(In Millions)				
Financial assets:					
Bonds					
Industrial and miscellaneous	$ -	$ 23	$ 20	$ -	$ 43
Common stock - unaffiliated	354	60	169	-	583
Common stock - affiliated [(2)]	-	334	305	-	639
Cash equivalents and short-term investments [(3)]	-	1,483	-	-	1,483
Separate account assets [(4)]	34,157	11,571	267	-	45,995
Derivatives					
Forward contracts	-	75	-	(22)	53
Interest rate swaps	-	8,816	-	(6,087)	2,729
Currency swaps	-	174	-	(39)	135
Credit default swaps	-	48	-	(11)	37
Options	-	712	-	(109)	603
Total financial assets carried at fair value	$ 34,511	$ 23,296	$ 761	$ (6,268)	$ 52,300
Financial liabilities:					
Derivatives					
Forward contracts	$ -	$ 21	$ -	$ (22)	$ (1)
Interest rate swaps	-	6,385	-	(6,087)	298
Currency swaps	-	120	-	(39)	81
Credit default swaps	-	9	-	(11)	(2)
Options	-	36	-	(109)	(73)
Total financial liabilities carried at fair value	$ -	$ 6,571	$ -	$ (6,268)	$ 303

(1) *Netting adjustments represent offsetting positions that may exist under a master-netting agreement with a counterparty where amounts due from the counterparty are offset against amounts due to the counterparty.*

(2) *Common stocks – affiliated does not include MMHLLC which had a statutory carrying value of $3,413 million.*

(3) *Does not include cash of $305 million.*

(4) *$969 million of book value separate account assets and $281 million of market value separate account assets are not carried at fair value and, therefore, are not included in this table.*

The following presents changes in the Company's Level 3 financial instruments that are carried at fair value:

	Three Months Ended March 31, 2012				
	Bonds Industrial and Miscellaneous	Common Stock Unaffiliated	Common Stock Affiliated	Separate Account Assets	Total Level 3 Financial Assets Carried at Fair Value
	(In Millions)				
Balance as of 12/31/2011	$ 20	$ 169	$ 305	$ 267	$ 761
Gains (losses) in net income	(1)	2	30	14	45
Gains (losses) in surplus	1	(2)	1	-	-
Purchases	-	-	-	15	15
Issuances	-	-	-	-	-
Sales	-	-	(304)	(8)	(312)
Settlements	(1)	(3)	-	-	(4)
Transfers into Level 3 [(1)]	-	-	-	84	84
Transfers out of Level 3 [(1)]	-	-	-	-	-
Other transfers [(2)]	26	-	-	-	26
Balance as of 3/31/2012	$ 45	$ 166	$ 32	$ 372	$ 615

(1) These rows identify assets and liabilities that are consistently carried at fair value but have had a level change. Generally transfers out of Level 3 occur when quoted prices are received in markets that have not been active, and therefore the assets or liabilities are moved to Level 2. The separate account assets transfered into Level 3 were transferred from Level 2 due to a change in the pricing source.

(2) This row identifies assets and liabilities that are either no longer carried at fair value, or have just begun to be carried at fair value, such as assets or liabilities with no level changes but change in lower of cost or market carrying basis.

	Year Ended December 31, 2011					
	Bonds Industrial and Miscellaneous	Bonds Parent, Subsidiaries and Affiliates	Common Stock Unaffiliated	Common Stock Affiliated	Separate Account Assets	Total Level 3 Financial Assets Carried at Fair Value
	(In Millions)					
Balance as of 12/31/2010	$ 46	$ 20	$ 158	$ 69	$ 272	$ 565
Gains (losses) in net income	(10)	-	10	11	(7)	4
Gains (losses) in surplus	(3)	-	(12)	(18)	-	(33)
Purchases	-	-	52	295	23	370
Issuances	33	-	147	1	-	181
Sales	-	-	(6)	(48)	(21)	(75)
Settlements	(47)	-	(155)	-	-	(202)
Transfers into Level 3 [(1)]	-	-	-	-	-	-
Transfers out of Level 3 [(1)]	-	-	(25)	(5)	-	(30)
Other transfers [(2)]	1	(20)	-	-	-	(19)
Balance as of 12/31/2011	$ 20	$ -	$ 169	$ 305	$ 267	$ 761

(1) These rows identify assets and liabilities that are consistently carried at fair value but have had a level change. Generally transfers out of Level 3 occur when quoted prices are received in markets that have not been active, and therefore the assets or liabilities are moved to Level 2.

(2) This row identifies assets and liabilities that are either no longer carried at fair value, or have just begun to be carried at fair value, such as assets or liabilities with no level changes but change in lower of cost or market carrying basis.

6. Fixed assets

No significant changes.

7. Deferred and uncollected life insurance premium

No significant changes.

8. Surplus notes

The following summarizes the surplus notes issued and outstanding as of March 31, 2012:

Issue Year	Face Amount	Carrying Value	Interest Rate	Maturity Date
	($ In Millions)			
1993	$ 250	$ 250	7.625%	2023
1994	100	100	7.500%	2024
2003	250	249	5.625%	2033
2009	750	741	8.875%	2039
2012	400	399	5.375%	2041
Total	$ 1,750	$ 1,739		

These notes are unsecured and subordinate to all present and future indebtedness of the Company, all policy claims and all prior claims against the Company as provided by the Massachusetts General Laws. The surplus notes are all held by bank custodians for unaffiliated investors. All issuances were approved by the Division. Surplus notes are included in surplus on the Condensed Consolidated Statutory Statements of Financial Position.

All payments of interest and principal are subject to the prior approval of the Division. Anticipated sinking fund payments are due for the notes issued in 1993 and 1994 as follows: $62 million in 2021, $88 million in 2022, $150 million in 2023 and $50 million in 2024. There are no sinking fund requirements for the notes issued in 2003, 2009 and 2012. Scheduled interest on the notes issued in 2003 and 1993 is payable on May 15 and November 15 of each year to holders of record on the preceding May 1 or November 1, respectively. Scheduled interest on the note issued in 1994 is payable on March 1 and September 1 of each year to holders of record on the preceding February 15 or August 15, respectively. Scheduled interest on the notes issued in 2009 and 2012 is payable on June 1 and December 1 of each year to holders of record on the preceding May 15 and November 15, respectively. Interest expense is not recorded until approval for payment is received from the Division. Through March 31, 2012, the unapproved interest was $40 million. As of March 31, 2012, the Company has paid cumulative interest of $764 million on surplus notes. Interest of $4 million was approved and paid during the three month period ended March 31, 2012.

9. Related party transactions

No significant changes.

10. Reinsurance

No significant changes.

11. Policyholders' liabilities

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 guaranteed minimum death, income, accumulation and withdrawal benefits (in millions):

Liability as of January 1, 2011	$ 509
Incurred guarantee benefits in 2011	324
Paid guarantee benefits in 2011	(6)
Liability as of December 31, 2011	827
Incurred guarantee benefits through March 2012	(335)
Paid guarantee benefits through March 2012	(2)
Liability as of March 31, 2012	$ 490

The following summarizes the account values, net amount at risk and weighted average attained age for variable annuity contracts with guaranteed minimum death, income, accumulation and withdrawal benefits 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.

	March 31, 2012			December 31, 2011		
	Account Value	Net Amount at Risk	Weighted Average Attained Age	Account Value	Net Amount at Risk	Weighted Average Attained Age
	($ In Millions)					
Annuity:						
GMDB	$ 11,477	$ 164	62	$ 10,684	$ 336	62
GMIB	4,313	535	62	4,010	822	62
GMAB	1,721	18	57	1,555	53	57
GMWB	210	9	66	195	17	66

12. Debt

No significant changes.

13. Employee benefit plans

No significant changes.

14. Employee compensation plans

No significant changes.

15. Federal income taxes

As discussed in *Note 3a "New accounting standards,"* the Company implemented a new standard in 2012 pertaining to accounting requirements for income taxes, SSAP No. 101. Based on the RBC Reporting Entity Table, the Company continues to admit deferred tax assets using the 3 years/15 percent of surplus admission rule. The Company has concluded that there was no cumulative effect of adopting this standard.

The Company is currently in litigation with the federal government regarding the timing of the deduction for certain policyholder dividends for tax years 1995 to 1997. In January 2012, the Company prevailed in the U.S. Court of Federal Claims, subject to the government's right to appeal. The favorable effect of this decision on tax years 1995-1997 was reflected in the Company's financial statements as of December 31, 2011. In the first quarter of 2012, the Company completed its analysis of the effect of this decision on post-1997 tax years, and recorded an additional federal income tax benefit of $77 million in the Condensed Consolidated Statutory Statements of Income, with a net increase of $15 million to surplus.

16. Transferable state tax credits

No significant changes.

17. Business risks, commitments and contingencies

a. Risks and uncertainties

Credit and other market risks

Credit risk is the risk that issuers of investments owned by the Company may default or that other parties may not be able to pay amounts due to the Company. The Company attempts to manage its investments to limit credit risk by diversifying its portfolio among various security types and industry sectors as well as purchasing credit default swaps to transfer some of the risk.

Since late 2006, declining U.S. housing prices led to higher delinquency and loss rates, reduced credit availability, and reduced liquidity in the residential loan and securities markets. The decline in housing prices was precipitated by several years of rising residential mortgage rates, relaxed underwriting standards by residential mortgage loan originators and substantial growth in affordable mortgage products including pay option adjustable rate mortgages and interest only loans.

The downturn in housing prices caused a decline in the credit performance of RMBS with unprecedented borrower defaults. Market pricing was affected both by the deterioration in fundamentals as well as by the reduced liquidity and higher risk premium demanded by investors. While housing fundamentals began stabilizing in late 2009 and in 2010, the housing market showed signs of renewed pressure through most of 2011. As of now, housing prices are near their April 2009 lows. Liquidation rates and foreclosure resolutions remain low but management is starting to see 'cash buyers' come in to buy homes as they sense the bottom is at hand. Liquidity for securities was weak for most of 2011, as supply concerns and weak fundamentals weighed on the market. Some of this concern abated in first quarter of 2012 but market liquidity is still vulnerable.

The first quarter of 2012 saw a more positive tone in European markets following significant liquidity injections by the European Central Bank, and the average secondary price of leveraged loans in Europe rose by around 3% over the quarter. Underlying concerns over the macroeconomic outlook and debt burden of certain parts of the Eurozone remain, but the Company's direct exposure on loans to companies in these countries is limited. While progress has been made, the extent of refinancing required in the European loan market over the next three years remains relatively significant and uncertainty over the sources of this refinancing may lead to an increase in default rates going forward.

As of March 31, 2012, the Company's general account held securities issued by entities domiciled within Greece, Italy, Ireland, Portugal and Spain which collectively accounted for less than 1% of invested assets. These holdings are highly diversified and over 83% is comprised of investment grade-rated (NAIC) debt securities issued predominantly by domestic utilities and corporations with large global operations. Within these countries, the Company did not have any sovereign debt exposure and it did not hold any domestic bank-issued securities.

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. 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 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 financial position or liquidity. However, the outcome of a particular proceeding may be material to the Company's operating results for a particular period depending upon, among other factors, the size of the loss or liability and the level of the Company's income for the period.

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 investments they allegedly lost as a result of the "Ponzi" scheme run 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. Tremont and its subsidiary, Tremont Partners, Inc., are indirect subsidiaries of MMHLLC. Certain of the lawsuits have been consolidated into three groups of suits pending 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.

In 2009, the Trustee appointed under the Securities Investor Protection Act to liquidate BLMIS notified Tremont that the bankruptcy estate of BLMIS has purported preference and fraudulent transfer claims against Tremont's Rye Select Broad Market funds and certain other Tremont-managed funds to recover redemption payments received from BLMIS by certain of those Rye Select funds. In December 2010, the Trustee filed suit in the U.S. Bankruptcy Court for the Southern District of New York against Tremont, Oppenheimer Acquisition Corp., MassMutual and others. Certain of these Tremont funds, in turn, have notified the Trustee of substantial claims by them against BLMIS. In September 2011, the court approved the proposed settlement with the Trustee that had been filed with the court in July. Certain parties have filed notices of appeal. The settlement, if affirmed on appeal, will not have a significant financial impact on MassMutual.

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 United States 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. MassMutual believes that it has numerous substantial defenses to the claims and will vigorously defend itself. 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 action.

Christina Chavez (Chavez) filed a putative class action complaint against MassMutual in April 2010. Chavez alleges that MassMutual breached its obligations to its term life policyholders in California by failing to pay dividends on those policies. Formal written discovery requests have been exchanged by all parties. 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 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 in Colorado. Amended complaints and motions to dismiss were filed. In October 2011, the court issued an order granting and denying in part defendants' motions to dismiss in five of the seven suits. In January 2012, the court granted a stipulated scheduling and discovery order in these actions. OFI 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 this claim.

In May 2009, MassMutual was named as a defendant in a private action 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. 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.

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

As required by SSAP No. 69 "Statement of Cash Flows," the Company has included in the Condensed Consolidated Statutory Statements of Cash Flows non-cash transactions primarily related to the following:

	Three Months Ended March 31, 2012	Year Ended December 31, 2011
	(In Millions)	
Bank loan rollovers	$ 556	$ 1,869
Bond conversions and refinancing	93	768
Mortgages converted to other invested assets	23	198
Interest capitalization for long-term debt	1	4
Stock conversion	-	107
Dividend reinvestment	-	4
Other invested assets stock distribution	-	4
Net investment income payment-in-kind bonds	-	2

The 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 and cost of investments acquired for bonds on the Condensed Consolidated Statutory Statements of Cash Flows.

20. Subsequent events

MassMutual has evaluated subsequent events through May 9, 2012, the date the financial statements were available to be issued.

On April 5, 2012, MassMutual finalized issuance of a $500 million funding agreement-backed medium term note with a 5-year maturity and a 2% fixed rate coupon.

No additional events have occurred subsequent to the balance sheet date and before the date of evaluation that would require disclosure.