

METLIFE INC  
Form 10-K  
February 27, 2013  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-15787

**MetLife, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*  
**200 Park Avenue, New York, N.Y.**  
*(Address of principal  
executive offices)*

**13-4075851**  
*(I.R.S. Employer  
Identification No.)*  
**10166-0188**  
*(Zip Code)*

**(212) 578-2211**

*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**  
Common Stock, par value \$0.01

**Name of each exchange on which registered**  
New York Stock Exchange

## Edgar Filing: METLIFE INC - Form 10-K

Floating Rate Non-Cumulative Preferred Stock, Series A, par value \$0.01	New York Stock Exchange
6.50% Non-Cumulative Preferred Stock, Series B, par value \$0.01	New York Stock Exchange
Common Equity Units	New York Stock Exchange
5.875% Senior Notes	New York Stock Exchange
5.375% Senior Notes	Irish Stock Exchange
5.25% Senior Notes	Irish Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at June 30, 2012 was approximately \$32.8 billion. At February 19, 2013, 1,093,590,305 shares of the registrant's common stock were outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

**Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on April 23, 2013, to be filed by the registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2012.**

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*As used in this Form 10-K, MetLife, the Company, we, our and us refer to MetLife, Inc., a Delaware corporation incorporated in 1995 and its subsidiaries and affiliates.*

**Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Many such factors will be important in determining the actual future results of MetLife, Inc., its subsidiaries and affiliates. These statements are based on current expectations and the current economic environment. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance. Actual results could differ materially from those expressed or implied in the forward-looking statements. Risks, uncertainties, and other factors that might cause such differences include the risks, uncertainties and other factors identified in MetLife, Inc.'s filings with the U.S. Securities and Exchange Commission (the SEC). These factors include: (1) difficult conditions in the global capital markets; (2) increased volatility and disruption of the capital and credit markets, which may affect our ability to meet liquidity needs and access capital, including through our credit facilities, generate fee income and market-related revenue and finance statutory reserve requirements and may require us to pledge collateral or make payments related to declines in value of specified assets; (3) exposure to financial and capital market risk, including as a result of the disruption in Europe and possible withdrawal of one or more countries from the Euro zone; (4) impact of comprehensive financial services regulation reform on us, as a potential non-bank systemically important financial institution, or otherwise; (5) numerous rulemaking initiatives required or permitted by Dodd-Frank which may impact how we conduct our business, including those compelling the liquidation of certain financial institutions; (6) regulatory, legislative or tax changes relating to our insurance, international, or other operations that may affect the cost of, or demand for, our products or services, or increase the cost or administrative burdens of providing benefits to employees; (7) adverse results or other consequences from litigation, arbitration or regulatory investigations; (8) potential liquidity and other risks resulting from our participation in a securities lending program and other transactions; (9) investment losses and defaults, and changes to investment valuations; (10) changes in assumptions related to investment valuations, deferred policy acquisition costs, deferred sales inducements, value of business acquired or goodwill; (11) impairments of goodwill and realized losses or market value impairments to illiquid assets; (12) defaults on our mortgage loans; (13) the defaults or deteriorating credit of other financial institutions that could adversely affect us; (14) economic, political, legal, currency and other risks relating to our international operations, including with respect to fluctuations of exchange rates; (15) downgrades in our claims paying ability, financial strength or credit ratings; (16) a deterioration in the experience of the closed block established in connection with the reorganization of Metropolitan Life Insurance Company; (17) availability and effectiveness of reinsurance or indemnification arrangements, as well as any default or failure of counterparties to perform; (18) differences between actual claims experience and underwriting and reserving assumptions; (19) ineffectiveness of risk management policies and procedures; (20) catastrophe losses; (21) increasing cost and limited market capacity for statutory life insurance reserve financings; (22) heightened competition, including with respect to pricing, entry of new competitors, consolidation of distributors, the development of new products by new and existing competitors, and for personnel; (23) exposure to losses related to variable annuity guarantee benefits, including from significant and sustained downturns or extreme volatility in equity markets,

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reduced interest rates, unanticipated policyholder behavior, mortality or longevity, and the adjustment for nonperformance risk; (24) our ability to address unforeseen liabilities, asset impairments, or rating actions arising from acquisitions or dispositions, including our acquisition of American Life Insurance Company and Delaware American Life Insurance Company (collectively, ALICO ) and to successfully integrate and manage the growth of acquired businesses with minimal disruption; (25) uncertainty with respect to the outcome of the closing agreement entered into with the United States Internal Revenue Service in connection with the acquisition of ALICO; (26) the dilutive impact on our stockholders resulting from the settlement of our outstanding common equity units; (27) regulatory and other restrictions affecting MetLife, Inc. s ability to pay dividends and repurchase common stock; (28) MetLife, Inc. s primary reliance, as a holding company, on dividends from its subsidiaries to meet debt payment obligations and the applicable regulatory restrictions on the ability of the subsidiaries to pay such dividends; (29) the possibility that MetLife s Board of Directors may control the outcome of stockholder votes through the voting provisions of the MetLife Policyholder Trust; (30) changes in accounting standards, practices and/or policies; (31) increased expenses relating to pension and postretirement benefit plans, as well as health care and other employee benefits; (32) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (33) inability to attract and retain sales representatives; (34) Provisions of laws and our incorporation documents may delay, deter or prevent takeovers and corporate combinations involving MetLife; (35) the effects of business disruption or economic contraction due to disasters such as terrorist attacks, cyberattacks, other hostilities, or natural catastrophes, including any related impact on the value of our investment portfolio, our disaster recovery systems, cyber- or other information security systems and management continuity planning; (36) the effectiveness of our programs and practices in avoiding giving our associates incentives to take excessive risks; and (37) other risks and uncertainties described from time to time in MetLife, Inc. s filings with the SEC.

MetLife, Inc. does not undertake any obligation to publicly correct or update any forward-looking statement if MetLife, Inc. later becomes aware that such statement is not likely to be achieved. Please consult any further disclosures MetLife, Inc. makes on related subjects in reports to the SEC.

**Note Regarding Reliance on Statements in Our Contracts**

See Exhibit Index Note Regarding Reliance on Statements in Our Contracts for information regarding agreements included as exhibits to this Annual Report on Form 10-K.

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**Part I**

**Item 1. Business**

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### **Overview**

As used in this Form 10-K, MetLife, the Company, we, our and us refer to MetLife, Inc., a Delaware corporation incorporated in 199 subsidiaries and affiliates.

With a more than 140-year history, we have grown to become a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers. Through our subsidiaries and affiliates, we hold leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East. Over the past several years, we have grown our core businesses, as well as successfully executed on our growth strategy. This has included completing a number of transactions that have resulted in the acquisition and, in some cases, divestiture of certain businesses while also further strengthening our balance sheet to position MetLife for continued growth.

MetLife is organized into six segments, reflecting three broad geographic regions: Retail; Group, Voluntary & Worksite Benefits; Corporate Benefit Funding; and Latin America (collectively, the Americas ); Asia; and Europe, the Middle East and Africa ( EMEA ). In addition, the Company reports certain of its results of operations in Corporate & Other, which includes MetLife Bank, National Association ( MetLife Bank ) (see Note 3 of the Notes to the Consolidated Financial Statements for information regarding MetLife Bank s exit from certain of its businesses (the MetLife Bank Divestiture )) and other business activities. Management continues to evaluate the Company s segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability.

On November 1, 2010 (the ALICO Acquisition Date ), MetLife, Inc. completed the acquisition of American Life Insurance Company ( American Life ) from AM Holdings LLC (formerly known as ALICO Holdings LLC) ( AM Holdings ), a subsidiary of American International Group, Inc. ( AIG ), and Delaware American Life Insurance Company ( DelAm ) from AIG (American Life, together with DelAm, collectively, ALICO ) (the ALICO Acquisition ). The assets, liabilities and operating results relating to the ALICO Acquisition are included in the Latin America, Asia and EMEA segments. See Note 3 of the Notes to the Consolidated Financial Statements.

Certain international subsidiaries have a fiscal year-end of November 30. Accordingly, the Company s consolidated financial statements reflect the assets and liabilities of such subsidiaries as of November 30, 2012 and 2011 and the operating results of such subsidiaries for the years ended November 30, 2012, 2011 and 2010.

In the U.S., we provide a variety of insurance and financial services products, including life, dental, disability, property & casualty, guaranteed interest, stable value and annuities, through both proprietary and independent retail distribution channels, as well as at the workplace. This business serves approximately 60,000 group customers, including over 90 of the top 100 FORTUNE 500® companies, and provides protection and retirement solutions to millions of individuals.

Outside the U.S., we operate in Latin America, Asia, Europe and the Middle East. MetLife is the largest life insurer in both Mexico and Chile and also holds leading market positions in Japan, Poland and Korea. Our businesses outside the U.S. provide life insurance, accident & health insurance, credit insurance, annuities, endowment and retirement & savings products to both individuals and groups. We believe these businesses will continue to grow more quickly than our U.S. businesses.

Revenues derived from any customer did not exceed 10% of consolidated premiums, universal life and investment-type product policy fees and other revenues for the last three years. Financial information, including revenues, expenses, operating earnings, and total assets by segment, as well as premiums, universal life and investment-type product policy fees and other revenues by major product groups, is provided in Note 2 of the Notes to the Consolidated Financial Statements. Operating revenues and operating earnings are performance measures that are not based on accounting principles generally accepted in the United States of America ( GAAP ). See Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP and Other Financial Disclosures for definitions of such measures.

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For financial information related to revenues, total assets, and goodwill balances by geographic region, see Notes 2 and 11 of the Notes to the Consolidated Financial Statements.

We are one of the largest institutional investors in the U.S. with a \$533 billion general account portfolio invested primarily in investment grade corporate bonds, structured finance securities, commercial and agricultural mortgage loans, U.S. Treasury and agency securities, as well as real estate and corporate equity. Over the past several years, we have taken a number of actions to further diversify and strengthen our general account portfolio.

Our well-recognized brand, leading market positions, competitive and innovative product offerings and financial strength and expertise should help drive future growth and enhance shareholder value, building on a long history of fairness, honesty and integrity. Over the course of the next several years, we will pursue the following objectives to position the Company for continued growth and achieve our vision of being recognized as the leading global life insurance and employee benefits provider:

***Refocus the U.S. businesses***

*Shift product mix away from capital intensive products*

*Invest in growth initiatives for the voluntary/worksites, accident & health, and direct channels*

*Drive margin improvement*

***Build the Global Employee Benefits business***

*Accelerate our local employee benefits businesses in key markets outside the United States*

*Grow our global benefits businesses through multinational and expatriate solutions*

***Grow emerging markets presence***

*Accelerate earnings in emerging markets in which we already have a strong presence*

*Seek opportunistic mergers and acquisitions to complement our organic growth*

***Drive toward customer centricity and a global brand***

*Institutionalize customer centric actions and culture at MetLife*

*Grow consideration and preference for MetLife's brand in key markets*



**Segments and Corporate & Other**

*Americas*

*Overview*

Our businesses in the Americas offer a broad range of protection products and services aimed at serving the financial needs of our customers throughout their lives. These products are sold to individuals and corporations, as well as other institutions, and their respective employees.

*Retail*

Our Retail segment is organized into two businesses: Life & Other and Annuities.

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The major products within Life & Other are as follows:

*Variable Life.* Variable life products provide insurance coverage through a contract that gives the policyholder flexibility in investment choices and, depending on the product, in premium payments and coverage amounts, with certain guarantees. Most importantly, with variable life products, premiums and account balances can be directed by the policyholder into a variety of separate account investment options or directed to the Company's general account. In the separate account investment options, the policyholder bears the entire risk of the investment results. We collect specified fees for the management of the investment options. The policyholder's cash value reflects the investment return of the selected investment options, net of management fees and insurance-related and other charges. In some instances, third-party money management firms manage these investment options. With some products, by maintaining a certain premium level, policyholders may have the advantage of various guarantees that may protect the death benefit from adverse investment experience.

*Universal Life.* Universal life products provide insurance coverage on the same basis as variable life, except that premiums, and the resulting accumulated balances, are allocated only to the Company's general account. Universal life products may allow the insured to increase or decrease the amount of death benefit coverage over the term of the contract and the owner to adjust the frequency and amount of premium payments. We credit premiums to an account maintained for the policyholder. Premiums are credited net of specified expenses. Interest is credited to the policyholder's account at interest rates we determine, subject to specified minimums. Specific charges are made against the policyholder's account for the cost of insurance protection and for expenses. With some products, by maintaining a certain premium level, policyholders may have the advantage of various guarantees that may protect the death benefit from adverse investment experience.

*Term Life.* Term life products provide a guaranteed benefit upon the death of the insured for a specified time period in return for the periodic payment of premiums. Specified coverage periods range from one year to 30 years, but in no event are they longer than the period over which premiums are paid. Death benefits may be level over the period or decreasing. Premiums may be guaranteed at a level amount for the coverage period or may be non-level and non-guaranteed. Term insurance products are sometimes referred to as pure protection products, in that there are typically no savings or investment elements. Term contracts expire without value at the end of the coverage period when the insured party is still living.

*Whole Life.* Whole life products provide a guaranteed benefit upon the death of the insured in return for the periodic payment of a fixed premium over a predetermined period. Premium payments may be required for the entire life of the contract period, to a specified age or period, and may be level or change in accordance with a predetermined schedule. Whole life insurance includes policies that provide a participation feature in the form of dividends. Policyholders may receive dividends in cash or apply them to increase death benefits, increase cash values available upon surrender or reduce the premiums required to maintain the contract in-force. Because the use of dividends is specified by the policyholder, this group of products provides significant flexibility to individuals to tailor the product to suit their specific needs and circumstances, while at the same time providing guaranteed benefits.

*Disability.* Disability products provide a benefit in the event of the disability of the insured. In most instances, this benefit is in the form of monthly income paid until the insured reaches age 65. In addition to income replacement, the product may be used to provide for the payment of business overhead expenses for disabled business owners or mortgage payment protection.

*Property & Casualty.* These products include personal lines property & casualty insurance offered to individuals through a variety of retail distribution channels, including independent agents, property & casualty specialists, and the individual distribution sales group.

Auto insurance policies provide coverage for private passenger automobiles, utility automobiles and vans, motorcycles, motor homes, antique or classic automobiles and trailers. We also offer traditional

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coverage such as liability, uninsured motorist, no fault or personal injury protection, as well as collision and comprehensive insurance.

Homeowners insurance policies provide protection for homeowners, renters, condominium owners and residential landlords against losses arising out of damage to dwellings and contents from a wide variety of perils, as well as coverage for liability arising from ownership or occupancy. Other insurance includes personal excess liability (protection against losses in excess of amounts covered by other liability insurance policies), and coverage for recreational vehicles and boat owners. Most of our homeowners policies are traditional insurance policies for dwellings, providing protection for loss on a replacement cost basis. These policies also provide additional coverage for reasonable, normal living expenses incurred by policyholders that have been displaced from their homes.

Auto insurance represented 58%, while homeowners and other insurance represented the remaining 42%, of the total net earned premiums on these products in 2012. In 2012, our property & casualty business was concentrated in New York and Illinois, as measured by the percentage of total direct earned premiums, of 14% and 10%, respectively, followed by Texas and Connecticut, each with 5%.

*Other.* Additionally, through our broker-dealer affiliates, we offer a full range of mutual funds and other securities products. The elimination of transactions from activity between the segments within the Americas occurs within Life & Other.

Our Annuities business offers a variety of variable and fixed annuities that are primarily sold to individuals and tax-qualified groups in the education, healthcare and not-for-profit sectors.

The major products within Annuities are as follows:

*Variable Annuities.* Variable annuities provide for both asset accumulation and asset distribution needs. Variable annuities allow the contractholder to make deposits into various investment options in a separate account, as determined by the contractholder. The risks associated with such investment options are borne entirely by the contractholder, except where guaranteed minimum benefits are involved. In certain variable annuity products, contractholders may also choose to allocate all or a portion of their account to the Company's general account and are credited with interest at rates we determine, subject to certain minimums. In addition, contractholders may also elect certain minimum death benefit and minimum living benefit guarantees for which additional fees are charged and where asset allocation restrictions may apply.

*Fixed Annuities.* Fixed annuities provide for both asset accumulation and asset distribution needs. Fixed annuities do not allow the same investment flexibility provided by variable annuities, but provide guarantees related to the preservation of principal and interest credited. Deposits made into deferred annuity contracts are allocated to the Company's general account and are credited with interest at rates we determine, subject to certain minimums. Credited interest rates are guaranteed not to change for certain limited periods of time, ranging from one to 10 years. Fixed income annuities provide a guaranteed monthly income for a specified period of years and/or for the life of the annuitant.

**Group, Voluntary & Worksite Benefits**

We have built a leading position in the U.S. group insurance market through long-standing relationships with many of the largest corporate employers in the U.S. Our Group, Voluntary & Worksite Benefits segment is organized into two businesses: Group and Voluntary & Worksite.

Our Group insurance products and services include life, dental, group short- and long-term disability and accidental death & dismemberment coverages. We also sell administrative services-only (ASO) arrangements to some employers.

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The major products within Group are as follows:

*Life.* Life insurance products and services include variable life, universal life, and term life products. These are similar to the products offered by the Retail Life & Other business except we offer group insurance products as employer-paid benefits or as voluntary benefits where all or a portion of the premiums are paid by the employee. These life insurance products and services also include employee paid supplemental life and are offered as standard products or may be tailored to meet specific customer needs.

*Dental.* Dental products provide insurance and ASO plans that assist employees, retirees and their families in maintaining oral health while reducing out-of-pocket expenses and providing superior customer service. Dental plans include the Preferred Dentist Program and the Dental Health Maintenance Organization.

*Disability.* Disability products provide a benefit in the event of the disability of the insured. In most instances, this benefit is in the form of monthly income paid until the insured reaches age 65.

Our Voluntary & Worksite products and services include long-term care ( LTC ), prepaid legal plans, critical illness and property & casualty products.

The major products within Voluntary & Worksite are as follows:

*Long-term Care.* LTC products provide protection against the potentially high costs of LTC services. They generally pay benefits to insureds who need assistance with activities of daily living or have a cognitive impairment. Although we discontinued the sale of these products in 2010, we continue to support our existing policyholders.

*Property & Casualty.* These products include personal lines property & casualty insurance offered directly to employees at their employer's worksite, through a variety of distribution channels, including independent agents, property & casualty specialists and direct marketing. The property & casualty products offered by the Voluntary & Worksite business are the same products offered by the Retail property & casualty business. Auto insurance represented 75%, while homeowners and other insurance represented the remaining 25%, of the total net earned premiums on these products in 2012. In 2012, our property & casualty business was concentrated in Massachusetts, New York and Florida, as measured by the percentage of total direct earned premiums, of 14%, 9% and 7%, respectively, followed by Texas, New Jersey and California, each with 6%.

## **Corporate Benefit Funding**

The Corporate Benefit Funding segment provides funding and financing solutions that help institutional customers mitigate and manage liabilities primarily associated with their qualified, nonqualified and welfare employee benefit programs using a spectrum of life and annuity-based insurance and investment products.

The major products within Corporate Benefit Funding are as follows:

*Stable Value Products.* We offer general account guaranteed interest contracts, separate account guaranteed interest contracts, and similar products used to support the stable value option of defined contribution plans. We also offer private floating rate funding agreements that are used for money market funds, securities lending cash collateral portfolios and short-term investment funds.

*Pension Closeouts.* We offer general account and separate account annuity products, generally in connection with the termination of defined benefit pension plans, both in the U.S. and the United Kingdom ( U.K. ). These risk transfer products include single premium buyouts that allow for full or partial transfers of pension liabilities.

*Torts and Settlements.* We offer innovative strategies for complex litigation settlements, primarily structured settlement annuities.

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*Capital Markets Investment Products.* Products offered include funding agreements, Federal Home Loan Bank advances and funding agreement-backed commercial paper.

*Other Corporate Benefit Funding Products and Services.* We offer specialized life insurance products and funding agreements designed specifically to provide solutions for funding postretirement benefits and company, bank or trust owned life insurance used to finance non-qualified benefit programs for executives.

### **Latin America**

We operate in six countries in Latin America: Argentina, Brazil, Chile, Colombia, Mexico, and Uruguay. Our largest operations are in Mexico, Chile and Argentina. In addition to the various products discussed in other segments within the Americas, Latin America engages in the following businesses:

*Accident & health insurance.* We offer group and individual major medical, accidental, and supplemental health products, including accidental death and disability, medical reimbursement, hospital indemnity and medical coverage for serious medical conditions.

*Administradora de Fondos de Ahorro para el Retiro ( AFORE ).* Through our AFORE company in Mexico, we offer a savings oriented pension product under the mandatory privatized social security system for all non-government employees.

*Credit insurance.* We offer credit insurance policies designed to fulfill certain loan obligations in the event of the policyholder's death.

See Note 3 of the Notes to the Consolidated Financial Statements for information on the disposition of insurance operations in the Caribbean region, Panama and Costa Rica. See also Note 23 for information on the acquisition of Administradora de Fondos de Pensiones Provida S.A. ( Provida ) in Chile.

### **Asia**

We operate in nine countries in Asia, with our largest operations in Japan and Korea. Other operations in Asia include Australia, Bangladesh, Hong Kong, Nepal and Pakistan, as well as an unconsolidated operating joint venture in China, the results of which are reflected in net investment income and a consolidated operating joint venture in India. Our Asia segment engages in the following businesses:

*Life insurance.* We offer both traditional and non-traditional life insurance products, such as whole life, term life, endowments, universal life and variable life products. We offer group life programs in most markets.

*Accident & health insurance.* We offer individual and group personal accident and supplemental health products, including accidental death and dismemberment, hospital indemnity, scheduled medical reimbursement plans, and coverage for serious medical conditions. In addition, we offer individual and group major medical coverage in select markets.

*Retirement and savings products.* We offer both fixed and variable annuity products in select markets, with our largest markets in Japan, Korea and China.

*Credit insurance.* We offer credit insurance policies designed to fulfill certain obligations in the event of the policyholder's death in select markets, including Japan, Australia and Bangladesh.

See Note 3 of the Notes to the Consolidated Financial Statements for information regarding the sale of the Company's 50% interest in its former operating joint venture in Japan in the second quarter of 2011.

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### ***EMEA***

We operate in 31 countries across EMEA, with our largest operations in Poland, the U.K., France and the United Arab Emirates. EMEA engages in the following businesses:

*Life insurance.* We offer both traditional and non-traditional life insurance products, such as whole life, term life, endowments, universal life and variable life products. We offer group term life programs in most markets.

*Accident & health insurance.* We offer individual and group personal accident and supplemental health products, including accidental death and dismemberment, hospital indemnity, scheduled medical reimbursement plans, and coverage for serious medical conditions. In addition, we offer individual and group major medical coverage in select markets.

*Retirement and savings products.* We offer both fixed and variable annuity products and pension products, including group pension programs in select markets. In Poland and Romania we offer through specialized pension companies a savings oriented pension product under the mandatory privatized social security systems.

*Credit insurance.* We offer credit insurance policies designed to fulfill certain obligations in the event of the policyholder's death.

### ***Corporate & Other***

The Company reports certain of its results of operations in Corporate & Other, which includes MetLife Bank (see Note 3 of the Notes to the Consolidated Financial Statements for information regarding the MetLife Bank Divestiture) and other business activities. Corporate & Other contains the excess capital not allocated to the segments, external integration costs, internal resource costs for associates committed to acquisitions, enterprise-wide strategic initiative restructuring charges and various start-up and certain run-off entities. Corporate & Other also includes assumed reinsurance of certain variable annuity products from our former operating joint venture in Japan. Under this in-force reinsurance agreement, we reinsure the living and death benefit guarantees issued in connection with variable annuity products. Additionally, Corporate & Other includes interest expense related to the majority of the Company's outstanding debt, expenses associated with certain legal proceedings and income tax audit issues. Corporate & Other also includes the elimination of intersegment amounts, which generally relate to intersegment loans, which bear interest rates commensurate with related borrowings.

### **Sales Distribution**

#### ***Overview***

In the Americas, excluding Latin America, we market our products and services through various distribution channels. Our retail life, disability and annuities products targeted to individuals are sold via sales forces, comprised of MetLife employees, in addition to third-party organizations. Our group and corporate benefit funding products are sold via sales forces primarily comprised of MetLife employees. Personal lines property & casualty insurance products are directly marketed to employees at their employer's worksite. Personal lines property & casualty insurance products are also marketed and sold to individuals by independent agents and property & casualty specialists through a direct marketing channel and the individual distribution sales group. MetLife sales employees work with all distribution groups to better reach and service customers, brokers, consultants and other intermediaries.

In Asia, Latin America, and EMEA, we market our products and services through a multi-distribution strategy which varies by geographic region and stage of market development. The various distribution channels include: career agency, bancassurance, direct marketing, brokerage, other third-party distribution, and e-commerce. In developing countries, the career agency channel covers the needs of the emerging middle class with primarily traditional products (e.g., whole life, term, endowment and accident & health). In more developed and mature markets, career agents, while continuing to serve their existing customers to keep pace with their developing

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financial needs, also target upper middle class and mass affluent customer bases with a more sophisticated product set including more investment-sensitive products, such as universal life insurance, unit-linked life insurance, mutual funds and single premium deposit insurance. In the bancassurance channel, we leverage partnerships that span all regions and have developed extensive and far reaching capabilities in all regions. Our direct marketing operations, the largest of which is in Japan, deploy both broadcast marketing approaches (e.g. direct response TV, web-based lead generation) and traditional direct marketing techniques such as inbound and outbound telemarketing.

*Americas*

**Retail Distribution**

Retail products are sold through a diverse set of distribution networks in order to maximize penetration in the market place. These include individual and third-party distribution, property & casualty specialists and direct marketing.

Our individual distribution sales group targets the large middle-income market, as well as affluent individuals, owners of small businesses and executives of small- to medium-sized companies. We have also been successful in selling our products in various multi-cultural markets.

The individual distribution sales group is comprised of three channels: the MetLife distribution channel, a career agency system, the New England Financial distribution channel, a general agency system, and MetLife Resources, a career agency system.

The MetLife distribution channel had approximately 4,000 MetLife agents under contract in 48 agencies at December 31, 2012. This career agency sales force focuses on the large middle-income and affluent markets, including multi-cultural markets. We support our efforts in multi-cultural markets through targeted advertising, specially trained agents and sales literature written in various languages.

The New England Financial distribution channel included approximately 30 general agencies providing support to approximately 1,700 general agents and a network of independent brokers throughout the U.S. at December 31, 2012. The New England Financial distribution channel targets high net worth individuals, owners of small businesses and executives of small- to medium-sized companies.

MetLife Resources, a focused distribution channel of MetLife, markets retirement, annuity and other financial products on a national basis through approximately 530 MetLife agents and independent brokers at December 31, 2012. MetLife Resources targets the nonprofit, educational and healthcare markets.

Retail Life & Other and Annuity products are sold through our individual distribution sales group and also through various third-party organizations. We distribute products in a regional model through wholesalers working directly with high net worth individuals and small- to medium-sized businesses through independent general agencies, financial advisors, consultants, brokerage general agencies and other independent marketing organizations under contractual arrangements. Additionally, wholesalers sell through financial intermediaries, including regional broker-dealers, brokerage firms, financial planners and banks.

We market and sell property & casualty products through independent agents, property & casualty specialists, a direct marketing channel and the individual distribution sales group. In recent years, we have increased the number of independent agents appointed to sell these products.

**Group Distribution**

Group, Voluntary & Worksite Benefits distributes its Group products and services through a sales force that is segmented by the size of the target customer. Marketing representatives sell either directly to corporate and other group customers or through an intermediary, such as a broker or consultant. Voluntary & Worksite products are sold through the same sales channels, as well as by specialists for these products. Employers have been

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emphasizing voluntary products and, as a result, we have increased our focus on communicating and marketing to employees in order to further foster sales of those products. At December 31, 2012, the Group sales channels had approximately 300 marketing representatives.

We are a leading provider of personal lines property & casualty insurance products offered to employees at their employer's worksite. Marketing representatives market personal lines property & casualty insurance products to employers through a variety of means, including broker referrals and cross-selling to group customers. Once permitted by the employer, MetLife commences marketing efforts to employees, enabling them to purchase coverage and to request payroll deduction over the telephone.

We have entered into several operating joint ventures and other arrangements with third parties to expand the marketing and distribution opportunities of Group, Voluntary & Worksite Benefits products and services. We also seek to sell our group products and services through sponsoring organizations and affinity groups. In addition, we also provide life and dental coverage to certain employees of the U.S. Government.

### **Corporate Benefit Funding Distribution**

Corporate Benefit Funding products and services are distributed through dedicated sales teams and relationship managers located in eight offices in the U.S. and one in the U.K. Products may be sold directly to benefit plan sponsors and advisors or through brokers, consultants or other intermediaries. In addition, these sales professionals work with individual, group and global distribution areas to better reach and service customers, brokers, consultants and other intermediaries.

### **Latin America Distribution**

Latin America's distribution channels include captive agents, direct marketing, bancassurance, large multinational brokers and small-and medium-sized brokers, direct and group sales forces (mostly for group policies without broker intermediation), and worksite marketing. The region has an exclusive and captive agency distribution network with more than 2,800 agents also selling a variety of individual life, accident & health, and pension products. In the direct marketing channel, we work with more than 60 sponsors and have a network of more than 1,300 telesales representatives selling mainly accident & health and individual life products directly to consumers. We currently work with approximately 2,900 active brokers with registered sales of group and individual life, accident & health, group medical, dental and pension products. Worksite marketing in Mexico has over 3,200 captive agents.

### **Asia**

Japan's multi-channel distribution strategy consists of captive agents, independent agents, brokers, bancassurance, and direct marketing. While face-to-face channels continue to be core to Japan's business, other channels, including bancassurance and direct marketing, have become a critical part of Japan's distribution strategy. Our Japan operation has maintained its position in bancassurance due to its strong distribution relationship with Japan's mega banks, trust banks and various regional banks, as well as with the Japan Post. The direct marketing channel is supported by an industry-leading marketing platform, state-of-the-art call center infrastructure and its own campaign management system.

Our Japan operation has approximately 5,400 captive agents, 10,100 independent agents, 75 bancassurance relationships, including Japan Post, and 170 direct marketing sponsors.

Elsewhere in Asia, distribution strategies differ by country but generally utilize a combination of captive agents, bancassurance relationships and direct marketing. Agency sales are achieved through a force of approximately 25,900 agents and managers (which includes approximately 1,500 agents and managers related to our operating joint venture in China) and a growing force of independent general agents. Bancassurance is a growing channel with approximately 60 relationships, and approximately 25 programs providing access to thousands of bank customers.



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Throughout the region, our Asia operation leverages its expertise in direct marketing operations management to conduct its own campaigns and provide those direct marketing capabilities to third-party sponsors.

While not a significant part of the region's overall business, sales of group life and pension business are primarily achieved through independent brokers and an employee sales force.

***EMEA***

Our EMEA operations cover a wide geographical region from the developed markets of western Europe to the emerging markets of central and eastern Europe, the Middle East and Africa. Our operations in central and eastern Europe employ a multi-channel distribution strategy, which includes significant face to face channels, built on a strong captive agency force of more than 3,800 agents, and relationships with more than 200 independent brokers and third-party multi-level agency networks. We have distribution relationships with more than 90 banks and other financial and non-financial institutions, as well as a fast growing direct marketing channel. This EMEA region also has a group/corporate business direct sales force of more than 130 spanning all geographies.

Similarly, in our Middle East and Africa operations, products are distributed via a variety of channels including approximately 1,500 agents, bancassurance, group brokers and direct marketing. Agency distribution is our primary distribution channel. Bancassurance is a growing channel with approximately 55 relationships providing access to thousands of bank customers.

Our businesses in western Europe also have a multi-channel distribution strategy, including independent financial advisors, brokers, captive agents, direct marketing, banks and financial institutions. Our U.K. operation has built a strong position in the U.K. independent advisor sector with a focus on variable annuities. Our U.K. operation also has a growing group risk business serving small and medium sized employers and an agency sales force of approximately 850 agents which distributes accident & health and term life products.

**Policyholder Liabilities**

We establish, and carry as liabilities, actuarially determined amounts that are calculated to meet our policy obligations when a policy matures or is surrendered, an insured dies or becomes disabled or upon the occurrence of other covered events, or to provide for future annuity payments. Our liabilities for future policy benefits and claims are established based on estimates by actuaries of how much we will need to pay for future benefits and claims. For life insurance and annuity products, we calculate these liabilities based on assumptions and estimates, including estimated premiums to be received over the assumed life of the policy, the timing of the event covered by the insurance policy, the amount of benefits or claims to be paid and the investment returns on the investments we make with the premiums we receive. We establish liabilities for claims and benefits based on assumptions and estimates of losses and liabilities incurred. Amounts for actuarial liabilities are computed and reported in the consolidated financial statements in conformity with GAAP. For more details on policyholder liabilities see Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates Liability for Future Policy Benefits and Management's Discussion and Analysis of Financial Condition and Results of Operations Policyholder Liabilities.

Pursuant to state insurance laws and country regulators, MetLife, Inc.'s insurance subsidiaries establish statutory reserves, reported as liabilities, to meet their obligations on their respective policies. These statutory reserves are established in amounts sufficient to meet policy and contract obligations, when taken together with expected future premiums and interest at assumed rates. Statutory reserves and actuarial liabilities for future policy benefits generally differ based on accounting guidance.

The New York Insurance Law and regulations require certain MetLife entities to submit to the New York Superintendent of Insurance or other state insurance departments, with each annual report, an opinion and memorandum of a qualified actuary that the statutory reserves and related actuarial amounts recorded in support of specified policies and contracts, and the assets supporting such statutory reserves and related actuarial

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amounts, make adequate provision for their statutory liabilities with respect to these obligations. See U.S. Regulation Insurance Regulation Policy and Contract Reserve Adequacy Analysis.

Insurance regulators in many of the non-U.S. countries in which MetLife operates require certain MetLife entities to prepare a sufficiency analysis of the reserves presented in the locally required regulatory financial statements, and to submit that analysis to the regulatory authorities. See International Regulation.

## **Underwriting and Pricing**

### ***Underwriting***

Underwriting generally involves an evaluation of applications by a professional staff of underwriters and actuaries, who determine the type and the amount of risk that we are willing to accept. We employ detailed underwriting policies, guidelines and procedures designed to assist the underwriter to properly assess and quantify risks before issuing policies to qualified applicants or groups.

Insurance underwriting considers not only an applicant's medical history, but also other factors such as financial profile, foreign travel, vocations and alcohol, drug and tobacco use. Group underwriting generally evaluates the risk characteristics of each prospective insured group, although with certain voluntary products and for certain coverages, members of a group may be underwritten on an individual basis. We generally perform our own underwriting; however, certain policies are reviewed by intermediaries under guidelines established by us. Generally, we are not obligated to accept any risk or group of risks from, or to issue a policy or group of policies to, any employer or intermediary. Requests for coverage are reviewed on their merits and a policy is not issued unless the particular risk or group has been examined and approved by our underwriters.

The underwriting conducted by our remote underwriting offices and intermediaries, as well as our corporate underwriting office, are subject to periodic quality assurance reviews to maintain high-standards of underwriting and consistency. Such offices are also subject to periodic external audits by reinsurers with whom we do business.

We have established senior level oversight of the underwriting process that facilitates quality sales and serves the needs of our customers, while supporting our financial strength and business objectives. Our goal is to achieve the underwriting, mortality and morbidity levels reflected in the assumptions in our product pricing. This is accomplished by determining and establishing underwriting policies, guidelines, philosophies and strategies that are competitive and suitable for the customer, the agent and us.

For our property & casualty business, our underwriting function has six principal aspects: evaluating potential voluntary and worksite employer accounts and independent agencies; establishing guidelines for the binding of risks; reviewing coverage bound by agents; underwriting potential insureds, on a case by case basis, presented by agents outside the scope of their binding authority; pursuing information necessary in certain cases to enable issuance of a policy within our guidelines; and ensuring that renewal policies continue to be written at rates commensurate with risk.

Subject to very few exceptions, agents in each of the distribution channels for the Americas business, excluding Latin America, have binding authority for risks which fall within our published underwriting guidelines. Risks falling outside the underwriting guidelines may be submitted for approval to the underwriting department; alternatively, agents in such a situation may call the underwriting department to obtain authorization to bind the risk themselves. In most states, we generally have the right within a specified period (usually the first 60 days) to cancel any policy.

### ***Pricing***

Pricing reflects our corporate underwriting standards, which are consistent for our global businesses. Product pricing is based on the expected payout of benefits calculated through the use of assumptions for mortality,

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morbidity, expenses, persistency and investment returns, as well as certain macroeconomic factors, such as inflation. Investment-oriented products are priced based on various factors, which may include investment return, expenses, persistency and optionality. For certain investment oriented products in the U.S. and certain business sold outside the U.S., pricing may include prospective and retrospective experience rating features. Prospective experience rating involves the evaluation of past experience for the purpose of determining future premium rates and all prior year gains and losses are borne by us. Retrospective experience rating also involves the evaluation of past experience for the purpose of determining the actual cost of providing insurance for the customer; however, the contract includes certain features that allow us to recoup certain losses or distribute certain gains back to the policyholder based on actual prior years' experience.

Rates for group insurance and voluntary & worksite products (with the exception of property & casualty products) are based on anticipated results for the book of business being underwritten. Renewals are generally reevaluated annually or biannually and are repriced to reflect actual experience on such products. Products offered by Corporate Benefit Funding are priced on demand. Pricing reflects expected investment returns, as well as mortality, longevity and expense assumptions appropriate for each product. This business is generally nonparticipating and illiquid, as policyholders have few or no options or contractual rights to cash values.

Rates for individual life insurance products are highly regulated and must be approved by the regulators of the jurisdictions in which the product is sold. Generally such products are renewed annually and may include pricing terms that are guaranteed for a certain period of time. Individual disability income products are based on anticipated results for the occupation being underwritten. Fixed and variable annuity products are also highly regulated and approved by the respective regulators. Such products generally include penalties for early withdrawals and policyholder benefit elections to tailor the form of the product's benefits to the needs of the opting policyholder. We periodically reevaluate the costs associated with such options and will periodically adjust pricing levels on our guarantees. Further, from time to time, we may also reevaluate the type and level of guarantee features currently being offered.

Rates for our major lines of property & casualty insurance are based on our proprietary database, rather than relying on rating bureaus. We determine prices in part from a number of variables specific to each risk. The pricing of personal lines insurance products takes into account, among other things, the expected frequency and severity of losses, the costs of providing coverage (including the costs of acquiring policyholders and administering policy benefits and other administrative and overhead costs such as reinsurance), competitive factors and profit considerations. The major pricing variables for personal lines insurance include characteristics of the insured property, such as age, make and model or construction type, as well as characteristics of the insureds, such as driving record and loss experience, and the insureds' personal financial management. Our ability to set and change rates is subject to regulatory oversight.

As a condition of our license to do business in each state, we, like all other personal lines insurers, are required to write or share the cost of private passenger automobile and homeowners insurance for higher risk individuals who would otherwise be unable to obtain such insurance. This involuntary market, also called the shared market, is governed by the applicable laws and regulations of each state, and policies written in this market are generally written at rates higher than standard rates and typically afford less coverage.

**Reinsurance Activity**

We enter into reinsurance agreements primarily as a purchaser of reinsurance for our various insurance products and also as a provider of reinsurance for some insurance products issued by third parties. We participate in reinsurance activities in order to limit losses, minimize exposure to significant risks, and provide additional capacity for future growth. We enter into various agreements with reinsurers that cover individual risks, group risks or defined blocks of business, primarily on a coinsurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread risk and minimize the effect of losses. The extent of each risk retained by us depends on our evaluation of the specific risk, subject, in certain circumstances, to maximum

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retention limits based on the characteristics of coverages. We also cede first dollar mortality risk under certain contracts. In addition to reinsuring mortality risk, we reinsure other risks, as well as specific coverages. We obtain reinsurance for capital requirement purposes and also when the economic impact of the reinsurance agreement makes it appropriate to do so.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse us for the ceded amount in the event a claim is paid. Cessions under reinsurance agreements do not discharge our obligations as the primary insurer. In the event that reinsurers do not meet their obligations under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible.

We reinsure our business through a diversified group of well-capitalized, highly rated reinsurers. We analyze recent trends in arbitration and litigation outcomes in disputes, if any, with our reinsurers. We monitor ratings and evaluate the financial strength of our reinsurers by analyzing their financial statements. In addition, the reinsurance recoverable balance due from each reinsurer is evaluated as part of the overall monitoring process. Recoverability of reinsurance recoverable balances is evaluated based on these analyses. We generally secure large reinsurance recoverable balances with various forms of collateral, including secured trusts, funds withheld accounts and irrevocable letters of credit. Additionally, we enter into reinsurance agreements for risk and capital management purposes with several affiliated captive reinsurers. The majority of such reinsurance activities within the affiliated captive reinsurers are eliminated in consolidation.

### ***Americas (excluding Latin America)***

For our Retail Life & Other insurance products, we have historically reinsured the mortality risk primarily on an excess of retention basis or on a quota share basis. We currently reinsure 90% of the mortality risk in excess of \$2 million for most products and reinsure up to 90% of the mortality risk for certain other products. In addition to reinsuring mortality risk as described above, we reinsure other risks, as well as specific coverages. Placement of reinsurance is done primarily on an automatic basis and also on a facultative basis for risks with specified characteristics. On a case by case basis, we may retain up to \$20 million per life and reinsure 100% of amounts in excess of the amount we retain. We evaluate our reinsurance programs routinely and may increase or decrease our retention at any time.

For our Retail Annuities business, we reinsure a portion of the living and death benefit guarantees issued in connection with our variable annuities. Under these reinsurance agreements, we pay a reinsurance premium generally based on fees associated with the guarantees collected from policyholders, and receive reimbursement for benefits paid or accrued in excess of account values, subject to certain limitations.

For our Corporate Benefit Funding segment, we have periodically engaged in reinsurance activities, as considered appropriate.

For our property & casualty business within both the Retail and Group, Voluntary & Worksite Benefits segments, we purchase reinsurance to manage our exposure to large losses (primarily catastrophe losses) and to protect statutory surplus. We cede losses and premiums based upon the exposure of the policies subject to reinsurance. To manage exposure to large property & casualty losses, we purchase property catastrophe, casualty and property per risk excess of loss reinsurance protection.

For other policies, we generally retain most of the risk and cede particular risks on certain client arrangements.

### ***Latin America, Asia and EMEA***

For certain life insurance products, we currently reinsure risks in excess of \$5 million to external reinsurers on a yearly renewable term basis. We may also reinsure certain risks with external reinsurers depending upon the nature of the risk and local regulatory requirements.

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For selected large corporate clients, we reinsure group employee benefits or credit insurance business with various client-affiliated reinsurance companies, covering policies issued to the employees or customers of the clients. Additionally, we cede and assume risk with other insurance companies when either company requires a business partner with the appropriate local licensing to issue certain types of policies in certain countries. In these cases, the assuming company typically underwrites the risks, develops the products and assumes most or all of the risk.

We also have reinsurance agreements in-force that reinsure a portion of the living and death benefit guarantees issued in connection with variable annuity products. Under these agreements, we pay reinsurance fees associated with the guarantees collected from policyholders, and receive reimbursement for benefits paid or accrued in excess of account values, subject to certain limitations.

### ***Corporate & Other***

We reinsure through 100% quota share reinsurance agreements certain run-off LTC and workers compensation business written by MetLife Insurance Company of Connecticut ( MICC ), a subsidiary of MetLife, Inc.

Corporate & Other also has a reinsurance agreement in-force to reinsure the living and death benefit guarantees issued in connection with certain variable annuity products. Under this agreement, we receive reinsurance fees associated with the guarantees collected from policyholders, and provide reimbursement for benefits paid or accrued in excess of account values, subject to certain limitations.

### ***Catastrophe Coverage***

We have exposure to catastrophes which could contribute to significant fluctuations in our results of operations. For the Americas, excluding Latin America, we also use excess of retention and quota share reinsurance agreements to provide greater diversification of risk and minimize exposure to larger risks. Currently, for Latin America, Asia and EMEA, we purchase catastrophe coverage to insure risks within certain countries deemed by management to be exposed to the greatest catastrophic risks.

### ***Reinsurance Recoverables***

For information regarding ceded reinsurance recoverable balances, included in premiums, reinsurance and other receivables in the consolidated balance sheets, see Note 6 of the Notes to the Consolidated Financial Statements.

## **U.S. Regulation**

### ***Insurance Regulation***

In the United States, insurance is principally regulated by the states, with the federal government playing a limited role. Insurance regulation generally aims at supervising and regulating insurers individually rather than on a group-wide basis, with the goal of protecting policyholders and ensuring that each insurance company remains solvent.

Each of MetLife's insurance subsidiaries operating in the United States is licensed and regulated in each U.S. jurisdiction where it conducts insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects and business conduct of insurers. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things:

licensing companies and agents to transact business;

calculating the value of assets to determine compliance with statutory requirements;

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mandating certain insurance benefits;

regulating certain premium rates;

reviewing and approving policy forms;

regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements, and identifying and paying to the states benefits and other property that is not claimed by the owners;

regulating advertising;

protecting privacy;

establishing statutory capital and reserve requirements and solvency standards;

fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;

adopting and enforcing suitability standards with respect to the sale of annuities and other insurance products;

approving changes in control of insurance companies;

restricting the payment of dividends and other transactions between affiliates; and

regulating the types, amounts and valuation of investments.

Each insurance subsidiary is required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the jurisdictions in which it does business, and its operations and accounts are subject to periodic examination by such authorities. These subsidiaries must also file, and in many jurisdictions and in some lines of insurance obtain regulatory approval for, rules, rates and forms relating to the insurance written in the jurisdictions in which they operate.

State and federal insurance and securities regulatory authorities and other state law enforcement agencies and attorneys general from time to time make inquiries regarding compliance by MetLife, Inc. and its insurance subsidiaries with insurance, securities and other laws and regulations regarding the conduct of our insurance and securities businesses. We cooperate with such inquiries and take corrective action when warranted. See Note 21 of the Notes to the Consolidated Financial Statements.

***Holding Company Regulation***

MetLife, Inc. and its U.S. insurance subsidiaries are subject to regulation under the insurance holding company laws of various U.S. jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require a controlled insurance company (insurers that are subsidiaries of insurance holding companies) to register with state regulatory authorities and to file with those authorities certain reports, including information concerning its capital structure, ownership, financial condition, certain intercompany

transactions and general business operations.

State insurance statutes also typically place restrictions and limitations on the amount of dividends or other distributions payable by insurance company subsidiaries to their parent companies, as well as on transactions between an insurer and its affiliates. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – MetLife, Inc. – Liquidity and Capital Sources – Dividends from Subsidiaries.

**Guaranty Associations and Similar Arrangements**

Most of the U.S. jurisdictions in which our insurance subsidiaries are admitted to transact business require life and property & casualty insurers doing business within the jurisdiction to participate in guaranty associations,

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which are organized to pay certain contractual insurance benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets.

In the past five years, the aggregate assessments levied against MetLife have not been material. We have established liabilities for guaranty fund assessments that we consider adequate. See Note 21 of the Notes to the Consolidated Financial Statements for additional information on the insolvency assessments.

**Insurance Regulatory Examinations**

As part of their regulatory oversight process, state insurance departments conduct periodic detailed examinations of the books, records, accounts, and business practices of insurers domiciled in their states. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. Except as otherwise disclosed in Note 21 of the Notes to the Consolidated Financial Statements, during the three-year period ended December 31, 2012, MetLife has not received any material adverse findings resulting from state insurance department examinations of its insurance subsidiaries conducted in respect of this three-year period.

Regulatory authorities in a small number of states, Financial Industry Regulatory Authority ( FINRA ) and, occasionally, the U.S. Securities and Exchange Commission ( SEC ), have had investigations or inquiries relating to sales of individual life insurance policies or annuities or other products by Metropolitan Life Insurance Company ( MLIC ), MetLife Securities, Inc., New England Life Insurance Company, New England Securities Corporation, General American Life Insurance Company, Walnut Street Securities, Inc., MICC and Tower Square Securities, Inc. These investigations often focus on the conduct of particular financial services representatives and the sale of unregistered or unsuitable products or the misuse of client assets. Over the past several years, these and a number of investigations by other regulatory authorities were resolved for monetary payments and certain other relief, including restitution payments. We may continue to resolve investigations in a similar manner.

In addition, increased scrutiny has been given to claims payment practices by insurance companies. See Note 21 of the Notes to the Consolidated Financial Statements for further information regarding retained asset accounts and unclaimed property inquiries and related litigation.

State insurance regulators and the National Association of Insurance Commissioners ( NAIC ) are also investigating the use of affiliated captive reinsurers or off-shore entities to reinsure insurance risks. Like many life insurance companies, we utilize captive reinsurers to satisfy certain reserve requirements related to universal life and term life insurance policies. We also use captive reinsurers to aggregate variable annuity risks under a single legal entity, which allows us to consolidate hedging and other risk management programs. If the New York State Department of Financial Services (the Department of Financial Services ) or other state insurance regulators determine to restrict our use of captive reinsurers, it could limit our ability to write those products or hedge the associated risks efficiently, or lead us to increase prices on those products. For more information on our use of captive reinsurers see Note 11 of the Notes to the Consolidated Financial Statements.

The NAIC is reviewing life insurers' use of non-variable separate accounts that are insulated (where assets of the separate account equal to the reserves and other contract liabilities with respect to the account may not be charged with liabilities arising out of the general account in the event of an insurance company insolvency). The NAIC's review might lead to a recommendation against the allowance of insulation for certain of our separate account products, particularly in the institutional markets. We cannot predict what, if any, changes may result from this review and possible recommendations. If the Department of Financial Services or other state insurance regulators change applicable laws or regulations in accordance with such recommendation, our use of insulation for certain products could be impaired and our ability to compete effectively or do business in certain markets



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may be adversely affected. In addition, our financial results may also be adversely affected.

Finally, in January 2013, MetLife was the subject of a Supervisory College meeting. The meeting, which was chaired by the Department of Financial Services, was attended by MetLife's key U.S. and international insurance regulators. A Supervisory College is a group of key insurance regulators that is formed to facilitate information sharing and to enhance the member regulators' understanding of an insurance group's risk profile.

**Policy and Contract Reserve Adequacy Analysis**

Annually, our U.S. insurance subsidiaries are required to conduct an analysis of the adequacy of all statutory reserves. In each case, a qualified actuary must submit an opinion which states that the statutory reserves make adequate provision, according to accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the U.S. insurance subsidiary. The adequacy of the statutory reserves is considered in light of the assets held by the insurer with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on such assets, and the consideration anticipated to be received and retained under the related policies and contracts. The Company may increase reserves in order to submit an opinion without qualification. Since inception of this requirement, our U.S. insurance subsidiaries which are required by their states of domicile to provide these opinions have provided such opinions without qualifications.

**NAIC**

The NAIC is an organization, the mandate of which is to benefit state insurance regulatory authorities and consumers by promulgating model insurance laws and regulations for adoption by the states. The NAIC provides standardized insurance industry accounting and reporting guidance through its Accounting Practices and Procedures Manual (the Manual). However, statutory accounting principles continue to be established by individual state laws, regulations and permitted practices. Changes to the Manual or modifications by the various state insurance departments may impact the statutory capital and surplus of MetLife, Inc.'s U.S. insurance subsidiaries.

The NAIC currently has in place its Solvency Modernization Initiative, which is designed to review the U.S. financial regulatory system and all aspects of financial regulation affecting insurance companies. Though broad in scope, the NAIC has stated that the Solvency Modernization Initiative will focus on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. This initiative has resulted in the recent adoption by the NAIC of the NAIC Risk Management and Own Risk and Solvency Assessment model act which, following enactment at the state level, will require larger insurers, at least annually beginning in 2015, to assess the adequacy of their and their group's risk management and current and future solvency position. We cannot predict the additional capital requirements or compliance costs these requirements may impose.

In addition, in December 2012, the NAIC approved a new valuation manual containing a principles-based approach to life insurance company reserves. Principles-based reserving is designed to tailor the reserving process to specific products to result in more precise reserving. The valuation manual containing the principles-based approach will not become effective unless it is enacted into law by a minimum number of state legislatures. A number of insurance commissioners, including New York, have opposed the current form of the principles-based approach. The NAIC has formed a working group to study and address these concerns.

**Surplus and Capital; Risk-Based Capital**

Insurers are required to maintain their capital and surplus at or above minimum levels. Regulators have discretionary authority, in connection with the continued licensing of our U.S. insurance subsidiaries, to limit or prohibit an insurer's sales to policyholders if, in their judgment, the regulators determine that such insurer has not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders. Most of our U.S. insurance subsidiaries are subject to risk-based capital (RBC) requirements and report their RBC based on a formula calculated by applying factors to various asset, premium and statutory

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reserve items, as well as taking into account the risk characteristics of the insurer. The major categories of risk involved are asset risk, insurance risk, interest rate risk, market risk and business risk. The formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. State insurance laws provide insurance regulators the authority to require various actions by, or take various actions against, insurers whose RBC ratio does not meet or exceed certain RBC levels. As of the date of the most recent annual statutory financial statements filed with insurance regulators, the RBC of each of our subsidiaries subject to these requirements was in excess of each of those RBC levels. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – The Company – Capital.

The NAIC will examine RBC requirements in 2013. We are not aware of any potential NAIC actions that would have a material impact on the RBC of our U.S. insurance subsidiaries.

**Regulation of Investments**

Each of our U.S. insurance subsidiaries is subject to state laws and regulations that require diversification of our investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments. We believe that the investments made by each of MetLife, Inc.'s U.S. insurance subsidiaries complied, in all material respects, with such regulations at December 31, 2012. See Federal Initiatives for information regarding the impact on our investments of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).

**Regulation of Over-the-Counter Derivatives**

Dodd-Frank includes a new framework of regulation of the over-the-counter (OTC) derivatives markets which will require clearing of certain types of transactions currently traded OTC and is likely to impose additional costs, including new capital, reporting and margin requirements and additional regulation on the Company. The derivative clearing requirements of Dodd-Frank could increase the cost of our risk mitigation. For example, increased margin requirements, combined with restrictions on securities that will qualify as eligible collateral, could reduce our liquidity and require increased holdings of cash and highly liquid securities with lower yields causing a reduction in income. Centralized clearing of certain OTC derivatives exposes MetLife, Inc. to the risk of a default by a clearing member or clearinghouse with respect to our cleared derivative transactions. MetLife, Inc. uses derivatives to mitigate a wide range of risks in connection with its businesses, including the impact of increased benefit exposures from our annuity products that offer guaranteed benefits. We have always been subject to the risk that hedging and other management procedures might prove ineffective in reducing the risks to which insurance policies expose us or that unanticipated policyholder behavior or mortality, combined with adverse market events, could produce economic losses beyond the scope of the risk management techniques employed. Any such losses could be increased by higher costs of writing derivatives (including customized derivatives) and the reduced availability of customized derivatives that might result from the enactment and implementation of Dodd-Frank.

**Federal Initiatives**

Although the insurance business in the United States is primarily regulated by the states, federal initiatives often have an impact on our business in a variety of ways. From time to time, federal measures are proposed which may significantly affect the insurance business. These areas include financial services regulation, securities regulation, derivatives regulation, pension regulation, health care regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct and indirect federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional federal charter for insurance companies.

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Dodd-Frank effected the most far-reaching overhaul of financial regulation in the U.S. in decades. The full impact of Dodd-Frank on us will depend on the numerous rulemaking initiatives required or permitted by Dodd-Frank and the various studies mandated by Dodd-Frank, many of which remain to be completed.

Dodd-Frank established the Federal Insurance Office within the Department of the Treasury, which has the authority to participate in the negotiations of international insurance agreements with foreign regulators for the U.S., as well as to collect information about the insurance industry and recommend prudential standards. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance, including serving as a non-voting member of the Financial Stability Oversight Council ( FSOC ) and making recommendations to the FSOC regarding insurers to be designated for more stringent regulation. The director is also required to submit a report to Congress regarding how to modernize and improve the system of insurance regulation in the United States, including by increasing national uniformity through either a federal charter or effective action by the states.

Dodd-Frank also includes provisions that may impact the investments and investment activities of MetLife, Inc. and its subsidiaries, including the federal regulation of such activities. Until the various final regulations are promulgated pursuant to Dodd-Frank, and perhaps for some time thereafter, the full impact of Dodd-Frank on such activities will remain unclear. Such provisions and regulations include, but are not limited to, the regulation of the OTC derivatives markets and prohibition or regulation of proprietary trading and sponsoring or investing in hedge funds or private equity funds by certain kinds of financial institutions (commonly known as the Volcker Rule). See Potential Regulation as a Non-Bank SIFI Volcker Rule.

### ***Potential Regulation as a Non-Bank SIFI***

MetLife, Inc. has de-registered as a bank holding company. As a result, MetLife, Inc. is no longer regulated as a bank holding company or subject to enhanced supervision and prudential standards as a bank holding company with assets of \$50 billion or more. However, if, in the future, MetLife, Inc. is designated by the FSOC as a non-bank systemically important financial institution ( non-bank SIFI ), it could once again be subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board ) and the Federal Reserve Bank of New York (collectively, with the Federal Reserve Board, the Federal Reserve ) and to enhanced supervision and prudential standards. See Enhanced Prudential Standards.

The FSOC issued final rules in April 2012, outlining the process it will follow and the criteria it will use to assess whether a non-bank financial company should be subject to enhanced supervision by the Federal Reserve as a non-bank SIFI. The FSOC will follow a three-stage process. In Stage 1, a set of uniform quantitative metrics will be applied to a broad group of non-bank financial companies in order to identify non-bank financial companies for further evaluation. If a non-bank financial company, such as MetLife, Inc., meets the total consolidated assets threshold and at least one of the other five quantitative thresholds used in the first stage, the FSOC will continue with two stages of further analysis using additional sources of data and qualitative and quantitative factors. As of December 31, 2012, MetLife, Inc. met the total consolidated assets threshold and at least one of the other Stage 1 quantitative thresholds. The International Association of Insurance Supervisors ( IAIS ) has been tasked by the Financial Stability Board ( FSB ), an international entity established to coordinate, develop and promote effective regulatory, supervisory and other financial sector policies in the interest of financial stability, with devising a process for designating global systemically important insurers ( G-SIIs ) and has proposed an assessment methodology. See International Regulation.

If MetLife, Inc. is designated as a non-bank SIFI, it will be subject to a number of Dodd-Frank requirements that are also applicable to bank holding companies with assets of \$50 billion or more.

### ***Enhanced Prudential Standards***

Currently, the Federal Reserve Board is considering how to apply the enhanced prudential standards required by Dodd-Frank to non-bank SIFIs. The Federal Reserve Board has proposed a set of prudential standards that would apply to non-bank SIFIs, as well as bank holding companies with assets of \$50 billion or more, but has not

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adopted final rules for most of these standards. As proposed, these enhanced prudential standards would impose (i) enhanced risk-based capital requirements, (ii) leverage limits, (iii) liquidity requirements, (iv) single counterparty exposure limits, (v) governance requirements for risk management, (vi) stress test requirements, and (vii) special debt-to-equity limits for certain companies, and would establish a procedure for early remediation based on the failure to comply with these requirements. The Federal Reserve Board has stated its intention to take a tailored approach to applying the prudential standards to non-bank SIFIs, but has not provided any details on how it intends to do so.

The stress testing requirements have been implemented and require non-bank SIFIs (as well as bank holding companies with \$50 billion or more of assets) to undergo three stress tests each year: an annual supervisory stress test conducted by the Federal Reserve Board and two company-run stress tests (an annual test which coincides with the timing of the supervisory stress test, and a mid-cycle test). Companies will be required to take the results of the stress tests into consideration in their annual capital planning and resolution and recovery planning. If MetLife, Inc. is designated by the FSOC as a non-bank SIFI, its competitive position and its ability to pay dividends, repurchase common stock or other securities or engage in other transactions that could affect its capital or need for capital could be adversely affected by any additional capital requirements that might be imposed as a result of the enactment of Dodd-Frank, enhanced prudential standards, stress testing and other regulatory initiatives.

Non-bank SIFIs would also be required to submit a resolution plan setting forth how the company could be resolved under the Bankruptcy Code in the event of material financial distress. Resolution plans would have to be resubmitted annually and promptly following any event, occurrence, change in conditions or circumstances, or other change that results in, or could reasonably be foreseen to have, a material effect on the resolution plan. A failure to submit a credible resolution plan could result in the imposition of a variety of measures, including additional capital, leverage, or liquidity requirements, and forced divestiture of assets or operations.

In addition, if it were determined that MetLife, Inc. posed a substantial threat to U.S. financial stability, the applicable federal regulators would have the right to require it to take one or more other mitigating actions to reduce that risk, including limiting its ability to merge with or acquire another company, terminating activities, restricting its ability to offer financial products or requiring it to sell assets or off-balance sheet items to unaffiliated entities. Enhanced standards would also permit, but not require, regulators to establish requirements with respect to contingent capital, enhanced public disclosures and short-term debt limits. These standards are described as being more stringent than those otherwise imposed on bank holding companies; however, the Federal Reserve Board is permitted to apply them on an institution-by-institution basis, depending on its determination of the institution's level of risk.

**Orderly Liquidation Authority**

Under the provisions of Dodd-Frank relating to the resolution or liquidation of certain types of financial institutions, if MetLife, Inc. were to become insolvent or were in danger of defaulting on its obligations, it could be compelled to undergo liquidation with the Federal Deposit Insurance Corporation ( FDIC ) as receiver. For this new regime to be applicable, a number of determinations would have to be made, including that a default by the affected company would have serious adverse effects on financial stability in the U.S. If the FDIC were to be appointed as the receiver for such a company, the liquidation of that company would occur under the provisions of the new liquidation authority, and not under the Bankruptcy Code. The FDIC's purpose under the liquidation regime is to mitigate the systemic risks the institution's failure poses, which is different from that of a bankruptcy trustee under the Bankruptcy Code. In such a liquidation, the holders of such company's debt could in certain respects be treated differently than under the Bankruptcy Code. As required by Dodd-Frank, the FDIC has established rules relating to the priority of creditors' claims and the potentially dissimilar treatment of similarly situated creditors. These provisions could apply to some financial institutions whose outstanding debt securities we hold in our investment portfolios. Dodd-Frank also provides for the assessment of bank holding companies with assets of \$50 billion or more, non-bank SIFIs, and other financial companies with assets of \$50 billion or more to cover the costs of liquidating any financial company subject to the new liquidation authority.

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### **Volcker Rule**

Under the Volcker Rule, Dodd-Frank restricts the ability of insured depository institutions and of companies that control an insured depository institution, and their affiliates, to engage in proprietary trading and to sponsor or invest in funds (hedge funds and private equity funds) that rely on certain exemptions from the Investment Company Act of 1940, as amended (the Investment Company Act). Because MetLife Bank's FDIC insurance has been terminated, MetLife, Inc. and its affiliates will not be subject to the bans on proprietary trading and fund activities under the Volcker Rule. However, because the Volcker Rule nevertheless imposes additional capital requirements and quantitative limits on such trading and activities by a non-bank SIFI, MetLife, Inc. and its affiliates could be subject to such requirements and limits were MetLife, Inc. to be designated a non-bank SIFI. Regulations defining and governing such requirements and limits on non-bank SIFIs have not been proposed. Commencing from the date of designation, a non-bank SIFI will have a two-year period, subject to further extension by the Federal Reserve Board, to conform to any such requirements and limits. Subject to safety and soundness determinations as part of rulemaking that could require additional capital requirements and quantitative limits, Dodd-Frank provides that the exemptions under the Volcker Rule also are available to exempt any additional capital requirements and quantitative limits on non-bank SIFIs. Until the rulemaking is complete, it is unclear whether MetLife, Inc., were it designated as a non-bank SIFI, may have to alter any of its future activities to comply, including continuing to invest in private investment funds for its general accounts or to issue certain insurance products backed by its separate accounts.

### **Consumer Protection Laws**

Numerous other federal and state laws also affect MetLife, Inc.'s earnings and activities, including federal and state consumer protection laws. As part of Dodd-Frank, Congress established the Consumer Financial Protection Bureau (CFPB) to supervise and regulate institutions that provide certain financial products and services to consumers. Although the consumer financial services subject to the CFPB's jurisdiction generally exclude insurance business of the kind in which we engage, the CFPB does have authority to regulate non-insurance consumer services we provide.

### **Banking Regulation**

MetLife, Inc.'s subsidiary, MetLife Bank, a federally chartered, non-deposit taking, uninsured national banking association, is subject to a wide variety of banking laws, regulations and guidelines. Federal banking and consumer financial protection laws regulate most aspects of the business of MetLife Bank, but certain state laws may apply as well. MetLife Bank is principally regulated by the Office of the Comptroller of the Currency (OCC) and the CFPB and secondarily by the Federal Reserve. Federal banking laws and regulations address various aspects of MetLife Bank's business and operations with respect to, among other things, chartering to carry on business as a bank; the permissibility of certain activities; maintaining minimum capital ratios; capital management in relation to the bank's assets; dividend payments and repurchases of securities, including common stock; safety and soundness standards; loan loss and other related liabilities; liquidity; financial reporting and disclosure standards; counterparty credit concentration; restrictions on related party and affiliate transactions; lending limits; payment of interest; unfair or deceptive acts or practices; privacy; and relationships with MetLife, Inc. and potentially with other investors in connection with a change of control of MetLife Bank. Dodd-Frank established a statutory standard for Federal preemption of state consumer financial protection laws, which standard will require national banks to comply with many state consumer financial protection laws that previously were considered preempted by Federal law. Federal and state banking regulators regularly re-examine existing laws and regulations applicable to banks and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the bank.

### **Change of Control and Restrictions on Mergers and Acquisitions**

As a result of MetLife, Inc.'s ownership of MetLife Bank, approval from the OCC would be required in connection with a change of control (generally presumed upon the acquisition of 10% or more of any class of voting securities) of MetLife, Inc. If MetLife, Inc. were designated as a non-bank SIFI, it would need to obtain Federal Reserve approval before acquiring, merging or consolidating with a financial company having more than \$10 billion of assets or acquiring 5% or more of any voting class of securities of a bank or bank holding company.

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***Securities, Broker-Dealer and Investment Adviser Regulation***

Some of our subsidiaries and their activities in offering and selling variable insurance products are subject to extensive regulation under the federal securities laws administered by the SEC. These subsidiaries issue variable annuity contracts and variable life insurance policies through separate accounts that are registered with the SEC as investment companies under the Investment Company Act. Each registered separate account is generally divided into sub-accounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act. In addition, the variable annuity contracts and variable life insurance policies issued by these registered separate accounts are registered with the SEC under the Securities Act of 1933, as amended. Other subsidiaries are registered with the SEC as broker-dealers under the Securities Exchange Act of 1934, as amended (the Exchange Act), and are members of, and subject to regulation by, FINRA. Further, some of our subsidiaries are registered as investment advisers with the SEC under the Investment Advisers Act of 1940, as amended, and are also registered as investment advisers in various states, as applicable. Certain variable contract separate accounts sponsored by our subsidiaries are exempt from registration, but may be subject to other provisions of the federal securities laws.

Federal and state securities regulatory authorities and FINRA from time to time make inquiries and conduct examinations regarding compliance by MetLife, Inc. and its subsidiaries with securities and other laws and regulations. We cooperate with such inquiries and examinations and take corrective action when warranted.

Federal and state securities laws and regulations are primarily intended to protect investors in the securities markets and generally grant regulatory agencies broad rulemaking and enforcement powers, including the power to limit or restrict the conduct of business for failure to comply with such laws and regulations. Dodd-Frank also authorizes the SEC to establish a standard of conduct applicable to brokers and dealers when providing personalized investment advice to retail and other customers. This standard of conduct would be to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer providing the advice. See Risk Factors Regulatory and Legal Risks Changes in U.S Federal and State Securities Laws and Regulations, and State Insurance Regulations Regarding Suitability of Annuity Product Sales, May Affect Our Operations and Our Profitability. We may also be subject to similar laws and regulations in the foreign countries in which we provide investment advisory services, offer products similar to those described above, or conduct other activities.

***Environmental Considerations***

As an owner and operator of real property, we are subject to extensive federal, state and local environmental laws and regulations. Inherent in such ownership and operation is also the risk that there may be potential environmental liabilities and costs in connection with any required remediation of such properties. In addition, we hold equity interests in companies that could potentially be subject to environmental liabilities. We routinely have environmental assessments performed with respect to real estate being acquired for investment and real property to be acquired through foreclosure. We cannot provide assurance that unexpected environmental liabilities will not arise. However, based on information currently available to us, we believe that any costs associated with compliance with environmental laws and regulations or any remediation of such properties will not have a material adverse effect on our business, results of operations or financial condition.

***Employee Retirement Income Security Act of 1974 ( ERISA ) Considerations***

We provide products and services to certain employee benefit plans that are subject to ERISA, or the Internal Revenue Code of 1986, as amended (the Code). As such, our activities are subject to the restrictions imposed by ERISA and the Code, including the requirement under ERISA that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries and the requirement under ERISA and the Code that fiduciaries may not cause a covered plan to engage in prohibited transactions with persons who have certain relationships with respect to such plans. The applicable provisions of ERISA and the Code are subject to enforcement by the Department of Labor ( DOL ), the Internal Revenue Service ( IRS ) and the Pension Benefit Guaranty Corporation.

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The prohibited transaction rules of ERISA and the Internal Revenue Code generally restrict the provision of investment advice to ERISA plans and participants and Individual Retirement Accounts ( IRAs ) if the investment recommendation results in fees paid to the individual advisor, his or her firm or their affiliates that vary according to the investment recommendation chosen. In October 2011, the DOL issued final regulations that provide limited relief from these investment advice restrictions. If no additional relief is provided regarding these investment advice restrictions, the ability of our affiliated broker-dealers and their registered representatives to provide investment advice to ERISA plans and participants, and with respect to IRAs, would likely be significantly restricted. Also, the fee and revenue arrangements of certain advisory programs may be required to be revenue neutral, resulting in potential lost revenues for these broker-dealers and their affiliates.

Other proposed investment advice regulatory initiatives under ERISA also may negatively impact the current business model of our broker-dealers. In particular, the DOL issued a proposed regulation in October 2010 that would, if adopted as proposed, significantly broaden the circumstances under which a person or entity providing investment advice with respect to ERISA plans or IRAs would be deemed a fiduciary under ERISA or the Internal Revenue Code. If adopted, the proposed regulations may make it easier for the DOL in enforcement actions, and for plaintiffs attorneys in ERISA litigation, to attempt to extend fiduciary status to advisors who would not be deemed fiduciaries under current regulations. In September 2011, the DOL announced it will re-propose these fiduciary definition regulations, and a new proposal is expected in 2013.

In addition, the DOL has issued a number of regulations recently that increase the level of disclosure that must be provided to plan sponsors and participants. The participant disclosure regulations and the regulations which require service providers to disclose fee and other information to plan sponsors took effect in 2012. These ERISA disclosure requirements will likely increase the regulatory and compliance burden upon us, resulting in increased costs.

In *John Hancock Mutual Life Insurance Company v. Harris Trust and Savings Bank (1993)*, the U.S. Supreme Court held that certain assets in excess of amounts necessary to satisfy guaranteed obligations under a participating group annuity general account contract are plan assets. Therefore, these assets are subject to certain fiduciary obligations under ERISA, which requires fiduciaries to perform their duties solely in the interest of ERISA plan participants and beneficiaries. On January 5, 2000, the Secretary of Labor issued final regulations indicating, in cases where an insurer has issued a policy backed by the insurer's general account to or for an employee benefit plan, the extent to which assets of the insurer constitute plan assets for purposes of ERISA and the Code. The regulations apply only with respect to a policy issued by an insurer on or before December 31, 1998 ( Transition Policy ). No person will generally be liable under ERISA or the Code for conduct occurring prior to July 5, 2001, where the basis of a claim is that insurance company general account assets constitute plan assets. An insurer issuing a new policy that is backed by its general account and is issued to or for an employee benefit plan after December 31, 1998 will generally be subject to fiduciary obligations under ERISA, unless the policy is a guaranteed benefit policy.

The regulations indicate the requirements that must be met so that assets supporting a Transition Policy will not be considered plan assets for purposes of ERISA and the Code. These requirements include detailed disclosures to be made to the employee benefits plan and the requirement that the insurer must permit the policyholder to terminate the policy on 90 day notice and receive without penalty, at the policyholder's option, either (i) the unallocated accumulated fund balance (which may be subject to market value adjustment) or (ii) a book value payment of such amount in annual installments with interest. We have taken and continue to take steps designed to ensure compliance with these regulations.

We cannot predict what other proposals may be made, what legislation may be introduced or enacted or the impact of any such legislation on our business, results of operations and financial condition.

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**International Regulation**

Our international insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are located or operate. This regulation includes minimum capital, solvency and operational requirements. The authority of our international operations to conduct business is subject to licensing requirements, permits and approvals, and these authorizations are subject to modification and revocation. Periodic examinations of insurance company books and records, financial reporting requirements, market conduct examinations and policy filing requirements are among the techniques used by regulators to supervise our non-U.S. insurance businesses. We also have investment and pension companies in certain foreign jurisdictions that provide mutual fund, pension and other financial products and services. Those entities are subject to securities, investment, pension and other laws and regulations, and oversight by the relevant securities, pension and other authorities of the countries in which the companies operate. In some jurisdictions, some of our insurance products are considered securities under local law and may be subject to local securities regulations and oversight by local securities regulators.

Our international operations are exposed to increased political, legal, financial, operational and other risks. A significant portion of our revenues is generated through operations in foreign jurisdictions, including many countries in early stages of economic and political development. Our international operations may be materially adversely affected by the actions and decisions of foreign authorities and regulators, such as through nationalization or expropriation of assets, the imposition of limits on foreign ownership of local companies, changes in laws (including tax laws and regulations), their application or interpretation, political instability, dividend limitations, price controls, changes in applicable currency, currency exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies, as well as other adverse actions by foreign governmental authorities and regulators. This may also impact many of our customers and independent sales intermediaries. Changes in the laws and regulations that affect them or their operations also may affect our business relationships with them and their ability to purchase or distribute our products. Such actions may negatively affect our business in these jurisdictions. See Risk Factors Risks Related to Our Business Our International Operations Face Political, Legal, Operational and Other Risks, Including Exposure to Local and Regional Economic Conditions, That Could Negatively Affect Those Operations or Our Profitability.

Certain of our international insurance operations may be subject to assessments, generally based on their proportionate share of business written in the relevant jurisdiction, for certain obligations to policyholders and claimants resulting from the insolvency of insurance companies. We cannot predict the timing and scope of any assessments that may be made in the future, which may materially affect the results of operations of our international insurance operations in particular quarterly or annual periods.

Annually, many of our international insurance operations are required to conduct an analysis of the sufficiency of all statutory reserves. In most of those cases, a locally qualified actuary must submit an analysis of the likelihood that the reserves make good and sufficient provision for the associated contractual obligations and related expenses of the insurer. Local regulatory and actuarial standards for this vary widely; the required implied certainty of the signing actuary's opinion varies equally widely.

Our insurance business throughout the European Economic Area is also subject to the evolving Solvency II insurance regulatory directive established by the European Parliament in 2009 to codify and harmonize European Union insurance regulation. While this directive provides for new risk management practices, solvency capital standards and disclosure requirements, disagreement surrounding Omnibus II (legislation amending certain provisions of Solvency II, including the implementation date) has created uncertainty regarding the ultimate content and effective date of this directive. The European Insurance and Occupational Pensions Authority (EIOPA) is developing final proposals for standards and guidelines to be published once Omnibus II is finalized. Although the effective date of the directive is currently January 1, 2014, ongoing debate on Omnibus II has caused regulators to reassess their own implementation strategies as Solvency II implementation is generally



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expected to be delayed until at least 2016. Since EIOPA and European Union member states have started to consider what aspects could be adopted during the next three years to continue the development of a more risk-based prudential framework, while avoiding more controversial aspects of Solvency II (the debate on long-term guarantees), we may need to accelerate or adjust our implementation accordingly.

Our Solvency II program is governed by a steering committee comprised of senior management. Solvency II encompasses solvency capital requirements, allows for both standard model and internal model calculations, requires a robust governance and risk management framework fully embedded in day-to-day decision making and greater quarterly and annual reporting disclosures. As requirements are finalized by the regulators, capital requirements might be impacted in a number of jurisdictions. Compliance with these new capital standards may impact the level of capital required to be held at individual legal entities. In addition, our legal entity structure throughout Europe may impact our capital requirements, risk management infrastructure and reporting by country. The efforts required to comply with these regulations may increase operating costs at these entities.

As part of the global initiative to identify global systemically important financial institutions, the FSB tasked the IAIS with devising an assessment methodology for designating G-SIIs. The methodology has yet to be finalized but is intended to identify those insurers whose distress or disorderly failure, because of their size, complexity and interconnectedness, would cause significant disruption to the global financial system and economic activity. The proposed methodology has three steps: (i) data collection; (ii) assessment using a quantitative indicator-based assessment (addressing five categories: size, extent of global activity, degree of interconnectedness within the financial system, amount of non-traditional and non-insurance activities and substitutability) and a more qualitative business segment assessment; and (iii) supervisory judgment and validation process, including quantitative and qualitative assessments. Based on information obtained from the IAIS, the IAIS will make recommendations to the FSB in consultation with national supervisory authorities. The FSB has stated that it expects to publish the first list of G-SIIs in April 2013. Any insurers identified as G-SIIs would be subject to additional policy measures. These policy measures were outlined in an October 2012 IAIS consultation paper and the IAIS has stated that it intends to finalize them within the first six months of 2013. Comments on the measures were submitted December 16, 2012. The proposed policy measures, which would need to be implemented by legislation or regulation in relevant jurisdictions, include higher capital requirements (that could be applied both as an additional charge on activities causing systemic importance and as a group level charge), enhanced supervision (including more detailed and frequent reporting, removal of barriers to orderly resolution of the G-SII and reduction of the G-SII's systemic risk over time). Enhanced supervision includes systemic risk reduction plans ( SRRPs ) that could require separation of activities causing systemic importance into legally and financially self-sufficient entities. Under the proposed policy measures, designated G-SIIs would have 18 months to develop an SRRP and 18 months to implement it. It is possible that if SRRP risk levels are met no additional capital will be required. If MetLife, Inc. were identified as a G-SII, its competitive position relative to other life insurers that were not so designated could be adversely affected.

We expect the scope and extent of regulation outside of the U.S., as well as regulatory oversight, generally to continue to increase. The regulatory environment in the countries in which we operate and changes in laws could have a material adverse effect on our results of operations. See Risk Factors Risks Related to Our Business Our International Operations Face Political, Legal, Operational and Other Risks, Including Exposure to Local and Regional Economic Conditions, That Could Negatively Affect Those Operations or Our Profitability.

### ***Japan***

Our operations in Japan are subject to regulation and examination by Japan's Financial Services Agency ( FSA ). Our operations in Japan are required to file with the FSA annual reports for each fiscal year (ending March 31) which include financial statements. These annual reports are not prepared on a U.S. GAAP basis. Similar to the U.S., Japanese law provides that insurers in Japan must maintain specified solvency standards for the protection of policyholders and to support the financial strength of licensed insurers. As of December 31, 2012, the date of our most recent regulatory filing in Japan, the solvency margin ratio of our Japan operations was in excess of four times the 200% solvency margin ratio that would require corrective action. Most Japanese life insurers maintain a solvency margin ratio well in excess of the legally mandated minimum.

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A portion of the annual earnings of our Japan operations may be repatriated each year, and may further be distributed to MetLife, Inc. as a dividend. We may determine not to repatriate profits from the Japan operations or to repatriate a reduced amount in order to maintain or improve the solvency margin of the Japan operations or for other reasons. In addition, the FSA may limit or not permit profit repatriations or other transfers of funds to the U.S. if such transfers would be detrimental to the solvency or financial strength of our Japan operations or for other reasons.

Our operations in Japan are subject to assessments to cover obligations to policyholders in the event of insolvency of other insurance companies. Under the Japanese Insurance Business Law, all licensed life insurers in Japan are assessed on an annual basis by the Life Insurance Policyholders Protection Corporation of Japan. These assessments are aggregated across all licensed life insurers in Japan and used to satisfy certain obligations to policyholders and claimants of insolvent life insurance companies. We cannot predict the amount of future assessments, which may materially affect our results of operations in Japan in particular quarterly or annual periods.

### **Competition**

We believe that competition faced by our segments is based on a number of factors, including service, product features, scale, price, financial strength, claims-paying ratings, credit ratings, e-business capabilities and name recognition. We compete globally with other insurance companies, as well as non-insurance financial services companies, such as banks, broker-dealers and asset managers, for individual consumers, employer and other group customers as well as agents and other distributors of insurance and investment products. Some of these companies offer a broader array of products, have more competitive pricing or, with respect to other insurance companies, have higher claims paying ability ratings. In the U.S. and Japan, we compete with a large number of domestic and foreign-owned life insurance companies, many of which offer products in categories on which we focus. Elsewhere, we compete with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies in particular areas in which they are active. Many of our group insurance products are underwritten annually and, accordingly, there is a risk that group purchasers may be able to obtain more favorable terms from competitors rather than renewing coverage with us.

We believe that the continued volatility of the financial markets, its impact on the capital position of many competitors, and subsequent actions by regulators and rating agencies have altered the competitive environment. In particular, we believe that these factors have highlighted financial strength as the most significant differentiator from the perspective of some customers and certain distributors. We believe the Company is well positioned to compete in this environment. In particular, the Company distributes many of its individual products through other financial institutions such as banks and broker-dealers. These distribution partners are currently placing greater emphasis on the financial strength of the company whose products they sell. In addition, the financial market turbulence has highlighted the extent of the risk associated with certain variable annuity products and has led us, along with many companies in our industry, to re-examine the pricing and features of the products offered. The effects of current market conditions may also lead to consolidation in the life insurance industry. Although we cannot predict the ultimate impact of these conditions, we believe that the strongest companies will enjoy a competitive advantage as a result of the current circumstances.

We must attract and retain productive sales representatives to sell our insurance, annuities and investment products. Insurance companies compete for sales representatives with demonstrated ability. We compete with other insurance companies for sales representatives primarily on the basis of our financial position, support services and compensation and product features. See Sales Distribution. In selected global markets, we continue to undertake several initiatives to grow our career agency forces, while continuing to enhance the efficiency and production of our sales representatives. These initiatives may not succeed in attracting and retaining productive agents. Sales of individual insurance, annuities and investment products and our results of operations and financial position could be materially adversely affected if we are unsuccessful in attracting and retaining productive agents.

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Numerous aspects of our business are subject to regulation. Legislative and other changes affecting the regulatory environment can affect our competitive position within the life insurance industry and within the broader financial services industry.

**Employees**

At December 31, 2012, we had approximately 64,000 employees. We believe that our relations with our employees are satisfactory.

**Executive Officers**

Set forth below is information regarding the executive officers of MetLife, Inc.:

<b>Name</b>	<b>Age</b>	<b>Position with MetLife and Business Experience</b>
Steven A. Kandarian	60	<p>Chairman of the Board (January 2012-present) and President and Chief Executive Officer (May 2011-present) of MetLife, Inc.</p> <p>Executive Vice President and Chief Investment Officer of MetLife, Inc. (April 2005-April 2011)</p> <p><u>Additional Experience:</u> Executive director, Pension Benefit Guaranty Corporation (2001-2004); founder and managing partner, Orion Capital Partners, where he managed a private equity fund specializing in venture capital and corporate acquisitions</p>
Ricardo A. Anzaldua	59	<p>Executive Vice President and General Counsel of MetLife, Inc. (December 2012-present)</p> <p>Associate general counsel and senior vice president, director of commercial and consumer markets law, The Hartford Financial Services Group (October 2010-December 2012)</p> <p>Associate general counsel and senior vice president, director of corporate law, The Hartford Financial Services Group (February 2007-October 2010); corporate secretary, The Hartford Financial Services Group (February 2008-October 2010)</p> <p><u>Additional Experience:</u> Partner, Cleary Gottlieb Steen &amp; Hamilton LLP (January 1999-January 2007)</p>
Steven J. Goulart	54	<p>Executive Vice President and Chief Investment Officer of MetLife, Inc. (May 2011-present)</p> <p>Treasurer, MetLife, Inc. (July 2009-April 2011)</p> <p>Head of the Portfolio Management Unit as Senior Managing Director of MLIC (January 2011-April 2011)</p> <p>Head of the Mergers &amp; Acquisitions Unit as Senior Vice President of MLIC (November 2006-July 2009)</p> <p><u>Additional Experience:</u> Director of MetLife Group, Inc. (June-November 2006); senior managing director, financial institutions group, Bear Stearns; managing director, global insurance group, Morgan Stanley; managing director, financial institutions group, Merrill Lynch</p>
John C.R. Hele	54	<p>Executive Vice President and Chief Financial Officer of MetLife, Inc. (September 2012-present)</p> <p>Executive vice president, chief financial officer and treasurer, Arch Capital Group Ltd. (April 2009-August 2012)</p> <p>Chief financial officer, ING Group, N.V. (April 2007-March 2009)</p> <p><u>Additional Experience:</u> Deputy chief financial officer, ING Group, N.V. (April 2006-April 2007); chief risk officer, insurance, ING Group, N.V. (October 2003 to March 2006); Founder, president and chief executive officer, Worldinsure Limited (February 1999-August 2003); 11 years with Merrill Lynch in investment banking, marketing and finance positions in the U.S.; various actuarial, finance and business roles with Crown Life in Canada</p>

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<b>Name</b>	<b>Age</b>	<b>Position with MetLife and Business Experience</b>
Frans Hijkoop	52	Executive Vice President and Chief Human Resources Officer of MetLife, Inc. (August 2011-present) Chief personnel officer and senior vice president of human resources, American Foods division of PepsiCo Inc. (January 2008-August 2011) Chief personnel officer and senior vice president of human resources, PepsiCo International (February 2007-January 2008) <u>Additional Experience:</u> Executive committee member and group human resources director, Lloyds TSB (January 2004-February 2007)
Beth M. Hirschhorn	48	Executive Vice President, Global Brand, Marketing and Communications of MetLife, Inc. (November 2011-present) Chief Marketing Officer and Senior Vice President of MetLife, Inc. (November 2006-October 2011) <u>Additional Experience:</u> Managed marketing for MetLife's U.S. Individual and Institutional businesses as Vice President of MLIC (January 2003-November 2006); led the consumer financial services marketing unit of JPMorgan Chase before joining MetLife in 2002
Michel Khalaf	49	President, EMEA, of MetLife, Inc. (November 2011-present) Executive Vice President, MLIC (January 2011-November 2011) Regional President, Middle East, Africa and South Asia, Alico (November 2008-November 2011) (Mr. Khalaf joined MetLife as a result of the ALICO Acquisition) Deputy president and chief operating officer, Philamlife, the operating company of AIG in the Philippines (August 2006-October 2008) <u>Additional Experience:</u> Leadership roles with Alico in various markets around the world, including Poland, Egypt, Italy, France, and the Caribbean
Martin Lippert	53	Executive Vice President and Head of Global Technology and Operations of MetLife, Inc. (November 2011-present) Executive Vice President and Head of Global Technology of MetLife, Inc. (September 2011-November 2011) Chief operations and technology officer for Citigroup (July 2008-March 2009) Vice chairman and group head of global technology and operations, Royal Bank of Canada (RBC) (August 1997-July 2008)
Maria R. Morris	50	Executive Vice President and Head of Global Employee Benefits of MetLife, Inc. (November 2011-present) Executive Vice President, Global Operations, Integration of MetLife, Inc. (September 2011-November 2011) Executive Vice President, Technology and Operations of MetLife, Inc. (January 2008-September 2011) Executive Vice President, Employee Benefits Sales of MLIC (December 2005-January 2008) <u>Additional Experience:</u> Senior Vice President of Group Insurance and Voluntary Benefits Sales and Service Operations of MLIC (July 2003-December 2005); Vice President of MLIC (March 1997-July 2003)
Christopher G. Townsend	44	President, Asia, of MetLife, Inc. (August 2012-present) Chief executive officer of the Asia Pacific region, Chartis (January 2010-April 2012) Chief executive officer, Chartis Australasia (February 2007-January 2010) <u>Additional Experience:</u> Chief executive officer, Chartis Hong Kong (January 2006-January 2007); various senior leadership roles for Chartis, including regional vice president, commercial line, Chartis Asia Pacific, senior vice president of mergers and acquisitions, and other leadership roles in London and Sydney (1991-2006)

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**Name Age Position with MetLife and Business Experience**

William J. Wheeler 51 President, Americas, MetLife, Inc. (November 2011-present)  
 Executive Vice President and Chief Financial Officer of MetLife, Inc. (December 2003-November 2011)  
Additional Experience: Senior Vice President of MLIC (1997-December 2003); oversaw business development, product management and marketing activities for Individual Business (2002-2003); Chief Financial Officer for Individual Business (2000-2002); senior vice president, Donaldson, Lufkin & Jenrette

**Trademarks**

We have a worldwide trademark portfolio that we consider important in the marketing of our products and services, including, among others, the trademark MetLife. We also have the exclusive global license to use the Peanuts characters in the area of financial services and healthcare benefit services under an advertising and premium agreement with Peanuts Worldwide, LLC until December 31, 2014. We also have a non-exclusive license to use certain Citigroup-owned trademarks in connection with the marketing, distribution or sale of life insurance and annuity products under a licensing agreement with Citigroup until June 30, 2015. Furthermore, as a result of the ALICO Acquisition, we acquired American Life and its trademarks, including the ALICO trademark. We believe that our rights in our trademarks and under our Peanuts characters license and our Citigroup license are well protected.

**Available Information**

MetLife files periodic reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at its Headquarters Office, 100 F Street, N.E., Washington D.C. 20549 or by calling the SEC at 1-202-551-8090 or 1-800-SEC-0330 (Office of Investor Education and Advocacy). In addition, the SEC maintains an internet website (www.sec.gov) that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC, including MetLife, Inc.

MetLife makes available, free of charge, on its website (www.metlife.com) through the Investor Relations page, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to all those reports, as soon as reasonably practicable after filing (furnishing) such reports to the SEC. Other information found on the website is not part of this or any other report filed with or furnished to the SEC.

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**Item 1A. Risk Factors****Economic Environment and Capital Markets-Related Risks*****If Difficult Conditions in the Global Capital Markets and the Economy Generally Persist, They May Materially Adversely Affect Our Business and Results of Operations***

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in financial asset classes or various markets, including global capital markets, can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities are sensitive to changing market factors. Global market factors, including interest rates, credit spreads, equity prices, real estate markets, foreign currency exchange rates, consumer spending, business investment, government spending, the volatility and strength of the capital markets, deflation and inflation can all affect our financial condition, as well as the volume, profitability and results of our business operations, either directly or by virtue of their impact on the business and economic environment generally and on general levels of economic activity, employment and customer behavior specifically. Disruptions in one market or asset class can also spread to other markets or asset classes. Upheavals in the financial markets can also affect our financial condition (including our liquidity and capital levels) as a result of mismatched impacts on the value of our assets and our liabilities. While our diversified business mix and geographically diverse business operations partially mitigate these risks, correlation across regions, countries and global market factors may reduce the benefits of diversification.

At times, throughout the past few years, volatile conditions have characterized financial markets, and not all global financial markets are functioning normally. Significant market volatility, and government actions taken in response, may exacerbate some of the risks we face. Concerns about economic conditions, capital markets and the solvency of certain European Union member states, including Portugal, Ireland, Italy, Greece and Spain ( Europe s perimeter region ), as well as Cyprus, and of the financial institutions that have significant direct or indirect exposure to debt issued by these countries, have been a cause of elevated levels of market volatility. This market volatility affected the performance of various asset classes during 2012, and it could continue until there is an ultimate resolution of these sovereign debt-related concerns. Despite public and private support programs for Europe s perimeter region, concerns about sovereign debt sustainability subsequently expanded to other European Union member states. As a result, in late 2011 and early 2012, several other European Union member states experienced credit ratings downgrades or had their credit ratings outlook changed to negative. See Management s Discussion and Analysis of Financial Condition and Results of Operations Investments Current Environment. The financial markets have also been affected by concerns that one or more countries may exit the Euro zone. Any of these concerns could have significant adverse effects on the European and global economic and financial markets generally.

To the extent these uncertain financial market conditions persist, our revenues and net investment income are likely to remain under pressure. Similarly, sustained periods of low interest rates could cause our profit margins to erode. See Management s Discussion and Analysis of Financial Condition and Results of Operations Industry Trends Impact of a Sustained Low Interest Rate Environment. Also, in the event of extreme prolonged market events, such as the recent global credit crisis, we could incur significant capital and/or operating losses. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility.

We are a significant writer of variable insurance products and certain other products issued through separate accounts. The account values of these products decrease as a result of declining equity markets. Decreases in account values reduce fees generated by these products, cause the amortization of deferred policy acquisition costs ( DAC ) to accelerate and could increase the level of insurance liabilities we must carry to support such products issued with any associated guarantees.

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In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. Group insurance, in particular, is affected by higher unemployment rates. In addition, we may experience an elevated incidence of claims and lapses or surrenders of policies. Furthermore, our policyholders may choose to defer paying insurance premiums or stop paying insurance premiums altogether. Such adverse changes in the economy could negatively affect our earnings and have a material adverse effect on our business, results of operations and financial condition.

The recent financial crisis has precipitated, and may continue to raise the possibility of, legislative, judicial, regulatory and other governmental actions. See [Regulatory and Legal Risks](#) [Our Insurance and Brokerage Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth](#) and [Risks Related to Our Business](#) [Competitive Factors May Adversely Affect Our Market Share and Profitability](#).

***Adverse Capital and Credit Market Conditions May Significantly Affect Our Ability to Meet Liquidity Needs, Our Access to Capital and Our Cost of Capital***

The capital and credit markets may be subject to periods of extreme volatility and disruption, which could cause our liquidity and credit capacity to be limited.

We need liquidity to pay our operating expenses and interest on our debt and dividends on our capital stock, provide our subsidiaries with cash or collateral, maintain our securities lending activities and replace certain maturing liabilities. Without sufficient liquidity, we could be forced to curtail our operations, and our business and financial results may suffer. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#).

In the event market or other conditions have an adverse impact on our capital and liquidity, or any required regulatory stress-testing indicates that such conditions could have such an impact beyond expectations and our current resources do not satisfy our needs or regulatory requirements, we may have to seek additional financing. The availability of additional financing will depend on a variety of factors such as the then current market conditions, regulatory considerations, availability of credit to us and the financial services industry generally, our credit ratings and credit capacity, and the perception of our customers and lenders regarding our long- or short-term financial prospects if we incur large operating or investment losses or if the level of our business activity decreases due to a market downturn. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. Our internal sources of liquidity may prove to be insufficient and, in such case, we may not be able to successfully obtain additional financing on favorable terms, or at all.

Our liquidity requirements may change if, among other things, we are required to return significant amounts of cash collateral on short notice under securities lending agreements. See [Investments-Related Risks](#) [Should the Need Arise, We May Have Difficulty Selling Certain Holdings in Our Investment Portfolio or in Our Securities Lending Program in a Timely Manner and Realizing Full Value Given Their Illiquid Nature](#) and [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Investments](#) [Securities Lending](#).

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital needed to operate our business, most significantly in our insurance operations. Such market conditions may limit our ability to replace, in a timely manner, maturing liabilities; satisfy regulatory capital requirements; and access the capital necessary to grow our business. As a result, we may be forced to delay raising capital, issue different types of securities than we would have otherwise, less effectively deploy such capital, issue shorter tenor securities than we prefer, or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility. Our results of operations, financial condition, cash flows and statutory capital position could be materially adversely affected by disruptions in the financial markets.

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***We Are Exposed to Significant Financial and Capital Markets Risk Which May Adversely Affect Our Results of Operations, Financial Condition and Liquidity, and May Cause Our Net Investment Income to Vary from Period to Period***

We are exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices, real estate markets, foreign currency exchange rates, market volatility, global economic performance in general, the performance of specific obligors, including governments, included in our investment portfolio and other factors outside our control.

*Interest Rate Risk.* Some of our products, principally traditional whole life insurance, fixed annuities and guaranteed interest contracts, expose us to the risk that changes in interest rates will reduce our investment margin or spread, or the difference between the amounts that we are required to pay under the contracts in our general account and the rate of return we earn on general account investments intended to support obligations under such contracts. Our spread is a key component of our net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, which will reduce our investment margin. Moreover, borrowers may prepay or redeem the fixed income securities and commercial or agricultural mortgage loans in our investment portfolio with greater frequency in order to borrow at lower market rates, thereby exacerbating this risk. Although lowering interest crediting rates can help offset decreases in spreads on some products, our ability to lower these rates could be limited by competition or contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our spread could decrease or potentially become negative.

Our expectation for future spreads is an important component in the amortization of DAC and value of business acquired (VOBA). Significantly lower spreads may cause us to accelerate amortization, thereby reducing net income in the affected reporting period. In addition, during periods of declining interest rates, life insurance and annuity products may be relatively more attractive investments to consumers. This could result in increased premium payments on products with flexible premium features, repayment of policy loans and increased persistency, or a higher percentage of insurance policies remaining in-force from year to year, during a period when our new investments carry lower returns. A decline in market interest rates could also reduce our return on investments that do not support particular policy obligations. During periods of sustained lower interest rates, policy liabilities may not be sufficient to meet future policy obligations and may need to be strengthened. Accordingly, declining and sustained lower interest rates may materially affect our results of operations, financial position and cash flows and significantly reduce our profitability.

As a global insurance company, we are also affected by the monetary policies of the Federal Reserve Board and of central banks around the world. The Federal Reserve Board has taken a number of actions in recent years to spur economic activity by keeping interest rates low and may take further action to influence rates in the future. Such actions may have an impact on the pricing levels of risk-bearing investments, and may adversely impact the level of product sales. Central banks in other parts of the world have also taken action to lower interest rates. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Current Environment. For a discussion of the impact of the low interest environment on us, see Management's Discussion and Analysis of Financial Condition and Results of Operations Industry Trends Impact of a Sustained Low Interest Rate Environment.

Increases in market interest rates could also negatively affect our profitability. In periods of rapidly increasing interest rates, we may not be able to replace, in a timely manner, the investments in our general account with higher yielding investments needed to fund the higher crediting rates necessary to keep interest sensitive products competitive. We, therefore, may have to accept a lower spread and, thus, lower profitability or face a decline in sales and greater loss of existing contracts and related assets. In addition, policy loans, surrenders and withdrawals may tend to increase as policyholders seek investments with higher perceived returns as interest



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rates rise. This process may result in cash outflows requiring that we sell investments at a time when the prices of those investments are adversely affected by the increase in market interest rates, which may result in realized investment losses. Unanticipated withdrawals and terminations may cause us to accelerate the amortization of DAC and VOBA, which reduces net income and may also cause us to accelerate negative VOBA, which increases net income. An increase in market interest rates could also have a material adverse effect on the value of our investment portfolio, for example, by decreasing the estimated fair values of the fixed income securities that comprise a substantial portion of our investment portfolio. Finally, an increase in interest rates could result in decreased fee income associated with a decline in the value of variable annuity account balances invested in fixed income funds.

We manage interest rate risk as part of our asset and liability management strategies, which include maintaining an investment portfolio with diversified maturities that has a weighted average duration that is approximately equal to the duration of our estimated liability cash flow profile. We also use derivatives to mitigate interest rate risk. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our fixed income investments relative to our liabilities. See [Quantitative and Qualitative Disclosures about Market Risk](#).

*Credit Spreads.* Our exposure to credit spreads primarily relates to market price volatility and cash flow variability associated with changes in such spreads. Market volatility can make it difficult to value certain of our securities if trading becomes less frequent. In such case, valuations may include assumptions or estimates that may have significant period-to-period changes, which could have a material adverse effect on our results of operations or financial condition. If there is a resumption of significant volatility in the markets, it could cause changes in credit spreads and defaults and a lack of pricing transparency which, individually or in tandem, could have a material adverse effect on our results of operations, financial condition, liquidity or cash flows. See also [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Investments](#) [Investment Risks](#).

*Equity Risk.* Our primary exposure to equity risk relates to the potential for lower earnings associated with certain of our businesses where fee income is earned based upon the estimated fair value of the assets under management. Downturns and volatility in equity markets can have a material adverse effect on the revenues and investment returns from our savings and investment products and services. The retail variable annuity business in particular is highly sensitive to equity markets, and a sustained weakness in the equity markets could decrease revenues and earnings with respect to those products. Furthermore, certain of our variable annuity products offer guaranteed benefits which increase our potential benefit exposure should equity markets decline. We use derivatives and reinsurance to mitigate the impact of such increased potential benefit exposures. We are also exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other postretirement benefit obligations. Sustained declines in long-term interest rates or equity returns likely would have a negative effect on the funded status of these plans.

In addition, we invest a portion of our investments in leveraged buy-out funds, hedge funds and other private equity funds. The amount and timing of net investment income from such funds tends to be uneven as a result of the performance of the underlying investments. The timing of distributions from such funds, which depends on particular events relating to the underlying investments, as well as the funds' schedules for making distributions and their needs for cash, can be difficult to predict. As a result, the amount of net investment income from these investments can vary substantially from quarter to quarter. Significant volatility could adversely impact returns and net investment income on these alternative investment classes. In addition, the estimated fair value of such investments may be impacted by downturns or volatility in equity markets. See [Quantitative and Qualitative Disclosures about Market Risk](#).

*Real Estate Risk.* Our primary exposure to real estate risk relates to commercial and agricultural real estate. Our exposure to these risks stems from various factors, including the supply and demand of leasable commercial space, creditworthiness of tenants and partners, capital markets volatility and interest rate fluctuations. In addition, our real estate joint venture development program is subject to risks, including reduced property sales

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and decreased availability of financing, which could adversely impact these investments. Although we manage credit risk and market valuation risk for our commercial and agricultural real estate assets through geographic, property type and product type diversification, and asset allocation, general economic conditions and the recovery rate in the commercial and agricultural real estate sectors will continue to influence the performance of these investments. These factors, which are beyond our control, could have a material adverse effect on our results of operations, financial condition, liquidity or cash flows.

*Obligor-Related Risks.* Our investment portfolio contains investments in government bonds issued by certain European Union member states, Europe's perimeter region, as well as Cyprus, and in financial institutions that have significant direct or indirect exposure to debt issued by those nations. Recently, the European Union member states have experienced above average public debt, inflation and unemployment as the global economic downturn has developed. A number of member states are significantly impacted by the economies of their more influential neighbors, such as Germany, and financial troubles of one nation can lead to troubles in others. In particular, a number of large European banks hold significant amounts of sovereign and/or financial institution debt of other European nations and could experience difficulties as a result of defaults or declines in the value of such debt. Concerns regarding these difficulties could disrupt the functioning of the financial markets.

For example, this disruption could lead to the withdrawal of one or more countries from the Euro zone. The extent to which our results of operations, financial condition, liquidity and net investment income would be affected by any such withdrawal will depend on a number of factors, including the identity of the withdrawing country and the likelihood that other countries will follow suit. Risks related to any such withdrawal could include overall economic disruption; capital flight and attendant risks to the integrity of the European Union banking system; conversion to a national currency, which may be subject to devaluation as discussed further below; inflation risks; increased costs and diminished effectiveness in hedging against declines in the value of the Euro; declines in the value of our investments; credit losses; and an increase in foreign currency exchange rate risks, among others. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Investment Risks and Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Current Environment.

Our investment portfolio also contains investments, primarily in revenue bonds issued under the auspices of U.S. states and municipalities, and a limited amount of general obligation bonds of U.S. states and municipalities (collectively, State and political subdivision securities). Recently, certain U.S. states and municipalities have faced budget deficits and financial difficulties. The financial difficulties of such U.S. states and municipalities could have an adverse impact on our State and political subdivision securities.

*Foreign Currency Exchange Rate Risks.* Our primary foreign currency exchange rate risks are described under Risks Related to Our Business Fluctuations in Foreign Currency Exchange Rates Could Negatively Affect Our Profitability. Changes in foreign currency exchange rates can significantly affect our net investment income in any period, and such changes can be substantial. This risk will increase if a country withdraws from the Euro zone. In such case, the national currency to which such a country may revert will likely be devalued and contracts using the Euro will need to be renegotiated. It is possible that any such devaluation and its related consequences for our contracts and investments in any such country could be significant and materially adversely affect our operations and earnings in that country. Any operations we may have in any such withdrawing country could also be materially adversely affected by legal or governmental actions related to conversion from the Euro to a national currency. See Quantitative and Qualitative Disclosures about Market Risk.

*Summary.* Significant volatility in the markets could cause changes in interest rates, declines in equity prices, and the strengthening or weakening of foreign currencies against the U.S. dollar which, individually or in tandem, could have a material adverse effect on our results of operations, financial condition, liquidity or cash flows through realized investment losses, impairments, increased valuation allowances and changes in unrealized gain or loss positions.

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### **Regulatory and Legal Risks**

#### ***Our Insurance and Brokerage Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth***

*Insurance Regulation* U.S. Our insurance operations are subject to a wide variety of insurance and other laws and regulations. See *Business U.S. Regulation Insurance Regulation*. We anticipate that we will discuss regulatory developments from time to time in future quarterly reports on Form 10-Q under the caption *Management's Discussion and Analysis of Financial Conditions and Results of Operations Industry Trends Regulatory Developments*.

State insurance regulators and the National Association of Insurance Commissioners ( NAIC ) regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, that are made for the benefit of the consumer sometimes lead to additional expense for the insurer and, thus, could have a material adverse effect on our financial condition and results of operations. Recently, the NAIC and the Department of Financial Services have been scrutinizing insurance companies use of affiliated captive reinsurers or off-shore entities to hedge and reinsure insurance risks. Like many life insurance companies, we utilize captive reinsurers to satisfy certain reserve requirements. If the Department of Financial Services or other state insurance regulators restrict the use of such captive reinsurers, our ability to write certain products, or to hedge the associated risks efficiently, could be impaired or lead us to increase prices on those products, which could adversely impact our competitive position and our results of operations. See *Business U.S. Regulation Holding Company Regulation Insurance Regulatory Examinations* and Note 11 of the Notes to the Consolidated Financial Statements.

The NAIC is also reviewing life insurers' use of non-variable separate accounts that are insulated from general account claims, which might lead to a recommendation against the allowance of insulation for certain of our separate account products, particularly in the institutional markets. If the Department of Financial Services or other state insurance regulators change applicable laws or regulations in accordance with such recommendation, our use of insulation for certain products could be impaired and our ability to compete effectively or do business in certain markets may be adversely affected. In addition, our financial results may also be adversely affected. See *Business U.S. Regulation Holding Company Regulation Insurance Regulatory Examinations*.

*U.S. Federal Regulation Affecting Insurance.* Currently, the U.S. federal government does not directly regulate the business of insurance. However, the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank ) establishes the Federal Insurance Office within the Department of the Treasury, which has the authority to participate in the negotiations of international insurance agreements with foreign regulators for the U.S., as well as to collect information about the insurance industry and recommend prudential standards.

Federal legislation and administrative policies can significantly and adversely affect insurance companies, including policies regarding financial services regulation, securities regulation, derivatives regulation, pension regulation, health care regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct and indirect federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional federal charter for insurance companies. Other aspects of our insurance operations could also be affected by Dodd-Frank. Under the so-called Volker Rule, Dodd-Frank imposes additional capital requirements and quantitative limits on certain trading and activities by a non-bank SIFI. MetLife, Inc. could be subject to such requirements and limits were it to be designated as a non-bank SIFI. See *Business U.S. Regulation Potential Regulation as a Non-Bank SIFI*.

Non-bank SIFIs can be assessed under Dodd-Frank for any uncovered costs arising in connection with the resolution of a systemically important financial company and to cover the expenses of the Office of Financial Research, an agency established by Dodd-Frank to improve the quality of financial data available to policymakers and facilitate more robust and sophisticated analysis of the financial system.

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*Regulatory Agencies.* Dodd-Frank established the CFPB, which supervises and regulates institutions providing certain financial products and services to consumers. Although the consumer financial services to which this legislation applies exclude insurance business of the kind in which we engage, the CFPB has authority to regulate non-insurance consumer services provided by MetLife. See Business U.S. Regulation Potential Regulation as a Non-Bank SIFI Consumer Protection Laws.

In addition, MetLife, Inc.'s subsidiary, MetLife Bank, National Association (MetLife Bank), a federally chartered, non-deposit taking, uninsured bank, is principally regulated by the OCC and the CFPB, and secondarily by the Federal Reserve. See Business U.S. Regulation Banking Regulation. While MetLife, Inc. has de-registered as a bank holding company, it may, in the future, be designated by the FSOC as a non-bank SIFI, and could once again be subject to regulation by the Federal Reserve and subject to enhanced supervision and prudential standards. See Business U.S. Regulation Potential Regulation as a Non-Bank SIFI Enhanced Prudential Standards.

In the wake of the recent financial crisis, national and international authorities have also proposed various measures intended to increase the intensity of regulation of large financial institutions. These measures have included enhanced risk-based capital requirements, leverage limits, liquidity requirements, single counterparty exposure limits, governance requirements for risk management, stress test requirements, special debt-to-equity limits for certain companies, and early remediation procedures, resolution and recovery planning, as well as greater coordination among regulators and efforts to harmonize regulatory regimes. The imposition of such measures could adversely affect our ability to conduct business, our results of operations and our ability to pay dividends, repurchase common stock or other securities or engage in other transactions that could affect our capital. See Business U.S. Regulation and Business International Regulation.

*Mortgage and Foreclosure-Related Exposures.* State and federal regulatory and law enforcement authorities have initiated various inquiries, investigations and examinations of alleged irregularities in the foreclosure practices of the residential mortgage servicing industry. Mortgage servicing practices have also been the subject of Congressional attention. Authorities have publicly stated that the scope of the investigations extends beyond foreclosure documentation practices to include mortgage loan origination, modification and loss mitigation practices. While we have reached settlements with some regulators relating to our mortgage servicing activities, it is possible that pending or additional inquiries, investigations or examinations may result in further monetary payments or other measures against us. See Management's Discussion and Analysis of Financial Condition and Results of Operations Industry Trends Mortgage and Foreclosure-Related Exposures.

*Regulation of Brokers and Dealers.* Dodd-Frank also authorizes the SEC to establish a standard of conduct applicable to brokers and dealers when providing personalized investment advice to retail and other customers. This standard of conduct would be to act in the best interest of the customer without regard to the financial or other interest of the broker or dealer providing the advice. See Business U.S. Regulation Securities, Broker-Dealer and Investment Adviser Regulation.

*ERISA Considerations.* We provide products and services to certain employee benefit plans that are subject to ERISA or the Internal Revenue Code of 1986, as amended (the Code). Consequently, our activities are likewise subject to the restrictions imposed by ERISA and the Code, including the requirement that fiduciaries must perform their duties solely in the interests of ERISA plan participants and beneficiaries, and not cause a plan to engage in prohibited transactions with persons who have certain relationships with respect to those plans.

The prohibited transaction rules generally restrict the provision of investment advice to ERISA plans and participants and Individual Retirement Accounts (IRAs) if the investment recommendation results in fees paid to the individual advisor, the firm or affiliate that vary according to the recommendation chosen. Recently adopted regulations in this area provide some relief from these investment advice restrictions. If additional relief is not provided, the ability of our affiliated broker-dealers and their registered representatives to provide investment advice to ERISA plans and participants and IRAs would likely be significantly restricted. Other proposed regulations in this area may negatively impact the current business model of our broker-dealers,

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including proposed changes to broaden the definition of fiduciary under ERISA, thereby increasing the regulation of persons providing investment advice to ERISA plans. In addition, recently effective regulations increasing the level of disclosure provided to plan sponsors and participants will likely increase the regulatory and compliance burden upon us, resulting in increased expenses for us. See Business U.S. Regulation Employee Retirement Income Security Act of 1974 ( ERISA ) Considerations.

*International Regulation.* Our international insurance operations are principally regulated by insurance regulatory authorities in the jurisdictions in which they are located or operate. See Business International Regulation. A significant portion of our revenue is generated through operations in foreign jurisdictions, including many countries in early stages of economic and political development. Our international operations may be materially adversely affected by the actions and decisions of foreign authorities and regulators, such as any nationalization or expropriation of assets, the imposition of limits on foreign ownership of local companies, changes in laws (including tax laws and regulations), their application or interpretation, political instability, dividend limitations, price controls, changes in applicable currency, currency exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold to U.S. dollars or other currencies. This may also impact many of our customers and independent sales intermediaries. Changes in the laws and regulations that affect these customers and independent sales intermediaries also may affect our business relationships with them and their ability to purchase or distribute our products. Accordingly, these changes and actions may negatively affect our business in these jurisdictions. We expect the scope and extent of regulation outside of the U.S., as well as general regulatory oversight, to continue to increase. The authority of our international operations to conduct business is subject to licensing requirements, permits and approvals, and these authorizations are subject to modification and revocation. The regulatory environment in the countries in which we operate and changes in laws could have a material adverse effect on our results of operations. See Risks Related to Our Business Our International Operations Face Political, Legal, Operational and Other Risks, Including Exposure to Local and Regional Economic Conditions, That Could Negatively Affect Those Operations or Our Profitability.

We are also subject to the evolving Solvency II insurance regulatory directive for our insurance business throughout the European Economic Area. As requirements are finalized by the regulators, capital requirements might be impacted in a number of jurisdictions. In addition, our legal entity structure throughout Europe may impact our capital requirements, risk management infrastructure and reporting by country. See Business International Regulation.

*General.* From time to time, regulators raise issues during examinations or audits of MetLife, Inc.'s regulated subsidiaries that could, if determined adversely, have a material impact on us. We cannot predict whether or when regulatory actions may be taken that could adversely affect our operations. In addition, the interpretations of regulations by regulators may change and statutes may be enacted with retroactive impact, particularly in areas such as accounting or statutory reserve requirements. We are also subject to other regulations and may in the future become subject to additional regulations. See Business U.S. Regulation and Business International Regulation. Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our financial condition and results of operations.

See Management's Discussion and Analysis of Financial Conditions and Results of Operations Industry Trends Regulatory Developments for additional information on the laws and regulations affecting our business.

**Table of Contents*****The Dodd-Frank Provisions Compelling the Liquidation of Certain Types of Financial Institutions Could Materially and Adversely Affect MetLife, Inc., as a Potential Non-Bank SIFI and an Investor in Other Financial Institutions, and Our Investors***

Under provisions of Dodd-Frank, if MetLife, Inc. is designated a non-bank SIFI and it were to become insolvent or were in danger of defaulting on its obligations, it could be compelled to undergo liquidation with the FDIC as receiver. For this new regime to be applicable, a number of determinations would have to be made, including that a default by MetLife, Inc. would have serious adverse effects on financial stability in the United States. If the FDIC were appointed as the receiver for MetLife, Inc., liquidation would occur under the provisions of the new liquidation authority, and not under the Bankruptcy Code, which ordinarily governs liquidations. In an FDIC managed liquidation, holders of a company's debt could be treated differently than under the Bankruptcy Code and similarly-situated creditors could be treated differently. In particular, unsecured creditors and shareholders are intended to bear the losses of the company being liquidated. These provisions could also apply to financial institutions whose debt securities we hold in our investment portfolio and could adversely affect our position as a creditor and the value of our holdings.

Dodd-Frank also provides for the assessment of charges against certain financial institutions, including non-bank SIFIs and bank holding companies of a certain size, to cover the costs of liquidating any financial company subject to the new liquidation authority. If MetLife, Inc. is designated as a non-bank SIFI, we could be assessed for a portion of the costs of the liquidation of a financial company that is liquidated under this authority. The liquidation authority could increase the funding costs of large bank holding companies or financial companies that might be viewed as systemically significant, such as MetLife, Inc. See Business U.S. Regulation Potential Regulation as a Non-Bank SIFI Orderly Liquidation Authority.

***Legislative and Regulatory Activity in Health Care and Other Employee Benefits Could Affect our Profitability As a Provider of Life Insurance, Annuities, and Non-Medical Health Insurance Benefit Products***

The Patient Protection and Affordable Care Act, signed into law on March 23, 2010, and The Health Care and Education Reconciliation Act of 2010, signed into law on March 30, 2010 (together, the Health Care Act), may lead to fundamental changes in the way that employers, including us, provide health care benefits, other benefits, and other forms of compensation to their employees and former employees. The Health Care Act also imposes requirements on us as a provider of non-medical health insurance benefit and other products and on the purchasers of certain of these products. The Health Care Act or any other related regulations or regulatory actions could adversely affect our ability to offer certain of these products in the same manner as we do today. They could also result in increased or unpredictable costs to provide certain products, and could harm our competitive position if the Health Care Act has a disparate impact on our products compared to products offered by our competitors.

In addition, we employ a substantial number of employees, including sales agents, in the United States to whom we offer employment-related benefits. We also currently provide benefits to certain of our retirees. These benefits are provided under complex plans that are subject to a variety of regulatory requirements. Either the Health Care Act or related regulations or regulatory actions could adversely affect our ability to attract, retain and motivate our associates. They could also result in increased or unpredictable costs to provide employee benefits, and could harm our competitive position if we are subject to fees, penalties, tax provisions or other limitations in the Health Care Act and our competitors are not.

The Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 also includes certain provisions for defined benefit pension plan funding relief. These provisions may impact the likelihood and/or timing of corporate plan sponsors terminating their plans and/or engaging in transactions to partially or fully transfer pension obligations to an insurance company. As part of our Corporate Benefit Funding segment, we offer general account and separate account group annuity products that enable a plan sponsor to transfer these risks, often in connection with the termination of defined benefit pension plans. Consequently, this legislation could indirectly affect the mix of our business, with fewer closeouts and more non-guaranteed funding products, and adversely impact our results of operations.

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***Changes in U.S. Federal and State Securities Laws and Regulations, and State Insurance Regulations Regarding Suitability of Annuity Product Sales, May Affect Our Operations and Our Profitability***

Federal and state securities laws and regulations apply to insurance products that are also securities, including variable annuity contracts and variable life insurance policies. As a result, some of MetLife, Inc.'s subsidiaries and their activities in offering and selling variable insurance contracts and policies are subject to extensive regulation under these securities laws.

Federal and state securities laws and regulations are primarily intended to ensure the integrity of the financial markets and to protect investors in the securities markets, and to protect investment advisory or brokerage clients. These laws and regulations generally grant regulatory agencies broad rulemaking and enforcement powers, including the power to limit or restrict the conduct of business for failure to comply with the securities laws and regulations. A number of changes have recently been suggested to the laws and regulations that govern the conduct of our variable insurance products business and our distributors that could change the way we conduct our business and the products we sell. This may adversely affect our operations and profitability, including increasing the regulatory and compliance burden upon us, resulting in increased costs. See Business U.S. Regulation Securities, Broker-Dealer and Investment Advisor Regulation. We also may be subject to similar laws and regulations in the foreign countries in which we offer products or conduct other activities similar to those described above. See Business International Regulation.

***Changes in Tax Laws, Tax Regulations, or Interpretations of Such Laws or Regulations Could Reduce Our Earnings and Materially Impact Our Operations by Increasing Our Corporate Taxes and Making Some of Our Products Less Attractive to Consumers***

Changes in tax laws, Treasury and other regulations promulgated thereunder, or interpretations of such laws or regulations could increase our corporate taxes and reduce our earnings. The Obama Administration has proposed corporate tax changes. Changes in corporate tax rates could affect the value of our deferred tax assets and deferred tax liabilities. Furthermore, the value of deferred tax assets could be impacted by future earnings levels.

Currently, U.S. tax laws afford certain benefits to life insurance and annuity products. The Obama Administration has also proposed certain changes to individual income tax rates and rules applicable to certain of these products. Changes in tax laws could make some of our products less attractive to consumers. A shift away from life insurance and annuity contracts and other tax-deferred products by our customers would reduce our income from sales of these products, as well as the asset base upon which we earn investment income and fees, thereby reducing our earnings.

***Litigation and Regulatory Investigations Are Increasingly Common in Our Businesses and May Result in Significant Financial Losses and/or Harm to Our Reputation***

We face a significant risk of litigation and regulatory investigations and actions in the ordinary course of operating our businesses, including the risk of class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and others generally applicable to business practices in the industries in which we operate. In connection with our insurance operations, plaintiffs' lawyers may bring or are bringing class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, denial or delay of benefits and breaches of fiduciary or other duties to customers. Plaintiffs in class action and other lawsuits against us may seek very large and/or indeterminate amounts, including punitive and treble damages. Due to the vagaries of litigation, the outcome of a litigation matter and the amount or range of potential loss at particular points in time may normally be difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how trial and appellate courts will apply the law in the context of the pleadings or evidence presented, whether by motion practice, or at trial or on appeal. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel will themselves view the

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relevant evidence and applicable law. Material pending litigation and regulatory matters affecting us and risks to our business presented by these proceedings are discussed in Note 21 of the Notes to the Consolidated Financial Statements. Updates are provided in the notes to our interim condensed consolidated financial statements included in our quarterly reports on Form 10-Q, as well as in Part II, Item 1 ( Legal Proceedings ) of those quarterly reports.

We are also subject to various regulatory inquiries, such as information requests, subpoenas and books and record examinations, from state and federal regulators and other authorities.

A substantial legal liability or a significant regulatory action against us, as well as regulatory inquiries or investigations could harm our reputation, result in material fines or penalties, result in significant legal costs and otherwise have a material adverse effect on our business, financial condition and results of operations. Even if we ultimately prevail in the litigation, regulatory action or investigation, our ability to attract new customers, retain our current customers and recruit and retain employees could be materially and adversely impacted. Regulatory inquiries and litigation may also cause volatility in the price of stocks of companies in our industry.

Current claims, litigation, unasserted claims probable of assertion, investigations and other proceedings against us could have a material adverse effect on our business, financial condition or results of operations. It is also possible that related or unrelated claims, litigation, unasserted claims probable of assertion, investigations and proceedings may be commenced in the future, and we could become subject to further investigations and have lawsuits filed or enforcement actions initiated against us. We currently have a market presence in over 45 countries and may be subject to additional investigations and lawsuits in these jurisdictions. Increased regulatory scrutiny and any resulting investigations or proceedings in any of the countries where we operate could result in new legal actions and precedents and industry-wide regulations that could adversely affect our business, financial condition and results of operations.

### **Investments-Related Risks**

#### ***Should the Need Arise, We May Have Difficulty Selling Certain Holdings in Our Investment Portfolio or Our Securities Lending Program in a Timely Manner and Realizing Full Value Given Their Illiquid Nature***

There may be a limited market for certain investments we hold in our investment portfolio, making them relatively illiquid. These include privately-placed fixed maturity securities, mortgage loans, policy loans, leveraged leases, equity real estate, such as real estate joint ventures and funds, and other limited partnership interests. In recent years, even some of our very high quality investments experienced reduced liquidity during periods of market volatility or disruption. If we were forced to sell certain of our investments during periods of market volatility or disruption, market prices may be lower than our carrying value in such investments. This could result in realized losses which could have a material adverse effect on our net income and financial position.

Similarly, we loan blocks of our securities to third parties (primarily brokerage firms and commercial banks) through our securities lending program, including fixed maturity and equity securities, short-term investments and cash equivalents. Under this program, we obtain collateral, usually cash, at the inception of a loan and typically purchase securities with the cash collateral. Upon the return to us of these loaned securities, we must return to the third party the cash collateral we received. If the cash collateral has been invested in securities, we need to sell the securities. However, in some cases, the maturity of those securities may exceed the term of the related securities on loan and the estimated fair value of the securities we need to sell may fall below the amount of cash received.

If we are required to return significant amounts of cash collateral under our securities lending program or otherwise need significant amounts of cash on short notice and we are forced to sell securities, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a



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volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both. In the event of a forced sale, accounting guidance requires the recognition of a loss for securities in an unrealized loss position and may require the impairment of other securities based on our ability to hold those securities, which would negatively impact our financial condition. In addition, under stressful capital market and economic conditions, liquidity broadly deteriorates, which may further restrict our ability to sell securities. Furthermore, if we decrease the amount of our securities lending activities over time, the amount of net investment income generated by these activities will also likely decline. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments and Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Company Liquidity and Capital Uses Securities Lending.

***Our Requirements to Pledge Collateral or Make Payments Related to Declines in Estimated Fair Value of Specified Assets May Adversely Affect Our Liquidity and Expose Us to Counterparty Credit Risk***

Some of our financing transactions require us to pledge collateral related to any decline in the estimated fair value of the specified assets under certain circumstances. Similarly, the terms of some of our financing transactions require us to make payments to our counterparties related to any decline in the estimated fair value of certain specified assets. The amount of collateral we may be required to pledge and the payments we may be required to make under these agreements may increase under certain circumstances and will likely increase under Dodd-Frank, which could adversely affect our liquidity. See Business U.S. Regulation Holding Company Regulation Regulation of Over-the-Counter Derivatives, Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Company Liquidity and Capital Uses Pledged Collateral and Note 13 of the Notes to the Consolidated Financial Statements.

***Gross Unrealized Losses on Fixed Maturity and Equity Securities and Defaults, Downgrades or Other Events May Result in Future Impairments to the Carrying Value of Such Securities, Resulting in a Reduction in Our Net Income***

Fixed maturity securities represent a significant portion of our investment portfolio. Fixed maturity and equity securities classified as available-for-sale ( AFS ) securities are reported at their estimated fair value. Unrealized gains or losses on AFS securities are recognized as a component of other comprehensive income (loss) and are, therefore, excluded from net income. In recent periods, as a result of low interest rates, the unrealized gains on our fixed maturity securities have far exceeded the unrealized losses. However, if interest rates rise, our unrealized gains would decrease and our unrealized losses would increase, perhaps substantially. The accumulated change in estimated fair value of these AFS securities is recognized in net income when the gain or loss is realized upon the sale of the security or in the event that the decline in estimated fair value is determined to be other-than-temporary and an impairment charge to earnings is taken. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Fixed Maturity and Equity Securities AFS.

The occurrence of a major economic downturn, acts of corporate malfeasance, widening risk spreads, or other events that adversely affect the issuers, guarantors or underlying collateral of structured securities could cause the estimated fair value of our fixed maturity securities portfolio and corresponding earnings to decline and cause the default rate of the fixed maturity securities in our investment portfolio to increase. A ratings downgrade affecting issuers or guarantors of particular securities, or similar trends that could worsen the credit quality of issuers, such as the corporate issuers of securities in our investment portfolio, could also have a similar effect. With economic uncertainty, credit quality of issuers or guarantors could be adversely affected. Similarly, a ratings downgrade affecting a security we hold could indicate the credit quality of that security has deteriorated and could increase the capital we must hold to support that security to maintain our RBC levels. Levels of writedowns or impairments are impacted by intent to sell, or our assessment of the likelihood that we will be required to sell, fixed maturity securities, as well as our intent and ability to hold equity securities which have declined in value until recovery. Realized losses or impairments on these securities may have a material adverse effect on our net income in a particular quarterly or annual period.

**Table of Contents*****Our Valuation of Securities and Investments and the Determination of the Amount of Allowances and Impairments Taken on Our Investments Are Subjective and Include Methodologies, Estimations and Assumptions Which Are Subject to Differing Interpretations and Market Conditions and, if Changed, Could Materially Adversely Affect Our Results of Operations or Financial Condition***

Fixed maturity, equity, fair value option and trading securities, as well as short-term investments that are reported at estimated fair value represent the majority of our total cash and investments. We define fair value generally as the price that would be received to sell an asset or paid to transfer a liability. Considerable judgment is often required in interpreting market data to develop estimates of fair value, and the use of different assumptions or valuation methodologies may have a material effect of the estimated fair value amounts. During periods of market disruption including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. In addition, in times of financial market disruption, certain asset classes that were in active markets with significant observable data may become illiquid. In those cases, the valuation process includes inputs that are less observable and require more subjectivity and management judgment. Valuations may result in estimated fair values which vary significantly from the amount at which the investments may ultimately be sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in estimated fair value could vary significantly. Decreases in the fair value of securities we hold may have a material adverse effect on our results of operations or financial condition. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments and Notes 1 and 10 of the Notes to the Consolidated Financial Statements.

The determination of the amount of allowances and impairments varies by investment type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. We reflect any changes in allowances and impairments in earnings as such evaluations are revised. However, historical trends may not be indicative of future impairments or allowances. In addition, any such future impairments or allowances could have a materially adverse effect on our earnings and financial position. See Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates Investment Impairments and Note 8 of the Notes to the Consolidated Financial Statements.

***Defaults on Our Mortgage Loans and Volatility in Performance May Adversely Affect Our Profitability***

Our mortgage loans face default risk and are principally collateralized by commercial, agricultural and residential properties. We establish valuation allowances for estimated impairments, which are based on loan risk characteristics, historical default rates and loss severities, real estate market fundamentals and outlooks, as well as other relevant factors. In addition, substantially all of our mortgage loans held-for-investment have balloon payment maturities. An increase in the default rate of our mortgage loan investments or fluctuations in their performance could have a material adverse effect on our business, results of operations and financial condition.

Further, any geographic or sector concentration of our mortgage loans may have adverse effects on our investment portfolios and consequently on our results of operations or financial condition. While we seek to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated. Moreover, our ability to sell assets relating to such particular groups of related assets may be limited if other market participants are seeking to sell at the same time. In addition, legislative proposals that would allow or require modifications to the terms of mortgage loans could be enacted. We cannot predict whether these proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business or investments. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Mortgage Loans.

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**Table of Contents*****The Defaults or Deteriorating Credit of Other Financial Institutions Could Adversely Affect Us***

We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, hedge funds and investment funds and other financial institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty. In addition, with respect to secured transactions, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. We also have exposure to these financial institutions in the form of unsecured debt instruments, non-redeemable and redeemable preferred securities, derivatives, joint venture, hedge fund and equity investments. Further, potential action by governments and regulatory bodies in response to the financial crisis affecting the global banking system and financial markets, such as investment, nationalization, conservatorship, receivership and other intervention, whether under existing legal authority or any new authority that may be created, or lack of action by European Union member governments and central banks, as well as deterioration in the banks' credit standing, could negatively impact these instruments, securities, transactions and investments or limit our ability to trade with them. Any such losses or impairments to the carrying value of these investments or other changes may materially and adversely affect our business and results of operations.

**Risks Related to Our Business*****Our International Operations Face Political, Legal, Operational and Other Risks, Including Exposure to Local and Regional Economic Conditions, That Could Negatively Affect Those Operations or Our Profitability***

Our international operations face political, legal, financial, operational and other risks. These operations may be materially adversely affected by the actions and decisions of foreign authorities and regulators, such as through nationalization or expropriation of assets, the imposition of limits on foreign ownership of local companies, changes in laws (including tax laws and regulations), their application or interpretation, political instability, dividend limitations, price controls, changes in applicable currency, currency exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies, as well as other adverse actions by foreign governmental authorities and regulators, such as the retroactive application of new requirements on our current and prior activities or operations. Such actions may negatively affect our business in these jurisdictions and could indirectly affect our business in other jurisdictions as well. Some of our foreign insurance operations are, and are likely to continue to be, in emerging markets where these risks are heightened. See [Business International Regulation](#) and [Quantitative and Qualitative Disclosures About Market Risk](#), as well as [Regulatory and Legal Risks Our Insurance and Brokerage Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth](#).

For example, in recent years, the operating environment in Argentina has been very challenging. We were formerly principally engaged in the pension business there, but in December 2008, the Argentine government nationalized the Social Security System and moved pension fund assets into the government-run system, effectively eliminating the private pension companies in Argentina. This substantially reduced our presence in Argentina. Accordingly, we have experienced and will continue to experience reductions in the operation's revenues and cash flows. More recent governmental actions have significantly limited our ability to run independently our Argentine operation, which could further reduce this operation's revenues and increase its compliance costs and other expenses. See [Business International Regulation](#). We also have operations in the Middle East where the legal and political systems and regulatory frameworks are subject to instability and disruptions. Instability has increased in many parts of the Middle East as a result of the Arab Spring movement. Lack of legal certainty and stability in the region exposes our operations to increased risk of disruption and to adverse or unpredictable actions by regulators and may make it more difficult for us to enforce our contracts, which may negatively impact our business in this region.

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We have market presence in over 45 different countries and increased exposure to risks posed by local and regional economic conditions. Europe has recently experienced a deep recession and appears to have entered another recession. A recession in Europe could adversely impact the demand for our products, negatively impact earnings, adversely affect the performance of our investments or result in impairments, all of which could have a material adverse effect on our business, results of operations and financial condition. See Economic Environment and Capital Markets-Related Risks If Difficult Conditions in the Global Capital Markets and the Economy Generally Persist, They May Materially Adversely Affect Our Business and Results of Operations. Countries in Europe's perimeter region, as well as Cyprus, have been particularly affected by the recession, resulting in increased national debts and depressed economic activity. We have significant operations and investments in these countries which could be adversely affected by economic developments such as higher taxes, growing inflation, decreasing government spending, rising unemployment and currency instability. See Management's Discussion and Analysis of Financial Condition and Results of Operations Investments Current Environment.

In addition, we face substantial exposure to the Japanese markets as a result of our considerable presence there. The Japanese economy continues to be weak and may experience further disruptions, which may have an adverse effect on our results of operations and financial condition. See Risks Related to Our Business Fluctuations in Foreign Currency Exchange Rates Could Negatively Affect Our Profitability, and Management's Discussion and Analysis of Financial Condition and Results of Operations Industry Trends Financial and Economic Environment.

Furthermore, we rely on local sales forces in these countries and may encounter labor problems resulting from workers' associations and trade unions in some countries. In several countries, including China and India, we operate with local business partners and managing these partner relationships poses risks to our business objectives. If our business model is not successful in a particular country, we may lose all or most of our investment in building and training the sales force in that country.

Lastly, we are continuing to expand our international operations in certain markets where we operate and in selected new markets. This may require considerable management time, as well as start-up expenses for market development before any significant revenues and earnings are generated. Operations in new foreign markets may achieve low margins or may be unprofitable, and expansion in existing markets may be affected by local political, economic and market conditions. Therefore, as we expand internationally, we may not achieve expected operating margins and our results of operations may be negatively impacted.

***Fluctuations in Foreign Currency Exchange Rates Could Negatively Affect Our Profitability***

We are exposed to risks associated with fluctuations in foreign currency exchange rates against the U.S. dollar resulting from our holdings of non-U.S. dollar denominated investments, investments in foreign subsidiaries and net income from foreign operations and issuance of non-U.S. dollar denominated instruments, including guaranteed interest contracts and funding agreements. In general, the weakening of foreign currencies versus the U.S. dollar will adversely affect the estimated fair value of our non-U.S. dollar denominated investments, our investments in foreign subsidiaries, and our net income from foreign operations. In addition, from time to time, various emerging market countries have experienced severe economic and financial disruptions, including significant devaluations of their currencies. Our exposure to foreign currency exchange rate risk is exacerbated by our investments in these emerging markets. See Quantitative and Qualitative Disclosures About Market Risk.

In addition, certain of our life and annuity products are exposed to foreign exchange rate risk. Payments under these contracts, depending on the circumstances, may be required to be made in different currencies and may not be the legal tender in the country whose law governs the particular product. Changes in exchange rate movements and the imposition of capital controls may also directly impact the liability valuation that may not be entirely hedged. If the currency upon which expected future payments are made strengthens, the liability valuation may increase, which may result in a reduction of net income.

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Historically, we have matched substantially all of our foreign currency liabilities in our foreign subsidiaries with investments denominated in their respective foreign currency, which limits the effect of currency exchange rate fluctuation on local operating results; however, fluctuations in such rates affect the translation of these results into our U.S. dollar basis consolidated financial statements. Although we take certain actions to address this risk, including entering into foreign currency derivatives, foreign currency exchange rate fluctuation could materially adversely affect our reported results due to unhedged positions or the failure of hedges to effectively offset the impact of the foreign currency exchange rate fluctuation. See [Quantitative and Qualitative Disclosures About Market Risk](#).

We face substantial exposure to risks associated with fluctuations in the yen/U.S. dollar exchange rate because we now have substantial operations in Japan and a significant portion of our premiums and investment income in Japan are received in yen. Most claims and expenses associated with our operations in Japan are also paid in yen and we primarily purchase yen-denominated assets to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into U.S. dollars for financial reporting purposes. Accordingly, fluctuations in the yen/U.S. dollar exchange rate can have a significant effect on our reported financial position and results of operations. Our Japan operation does assume some currency exposure by backing a portion of surplus and yen-denominated liabilities with U.S. dollar assets. Although this represents risk to our Japan operation, this activity reduces yen exposure at the enterprise level.

Due to our significant international operations, during periods when any foreign currency in which we derive our revenues weakens (strengthens), translating amounts expressed in that currency into U.S. dollars causes fewer (more) U.S. dollars to be reported. Any unrealized foreign currency translation adjustments are reported in accumulated other comprehensive income (loss). The weakening of a foreign currency relative to the U.S. dollar will generally adversely affect the value of investments in U.S. dollar terms and reduce the level of reserves denominated in that currency.

***An Inability to Access Our Credit Facilities Could Result in a Reduction in Our Liquidity and Lead to Downgrades in Our Credit and Financial Strength Ratings***

We rely on our credit facilities as a potential source of liquidity. The availability of these facilities could be critical to our credit and financial strength ratings and our ability to meet our obligations as they come due in a market when alternative sources of credit are tight. These credit facilities contain certain administrative, reporting, legal and financial covenants, including a requirement to maintain a specified minimum consolidated net worth. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) [Liquidity and Capital Resources](#) [The Company](#) [Liquidity and Capital Sources](#) [Credit and Committed Facilities](#) and Note 12 of the Notes to the Consolidated Financial Statements.

Our right to borrow funds under these facilities is subject to the fulfillment of certain important conditions, including our compliance with all covenants, and our ability to borrow under these facilities is also subject to the continued willingness and ability of the lenders that are parties to the facilities to provide funds. Our failure to comply with the covenants in the credit facilities or fulfill the conditions to borrowings, or the failure of lenders to fund their lending commitments (whether due to insolvency, illiquidity or other reasons) in the amounts provided for under the terms of the facilities, would restrict our ability to access these credit facilities when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

***We May Need to Fund Deficiencies in Our Closed Block; Assets Allocated to the Closed Block Benefit Only the Holders of Closed Block Policies***

MLIC's plan of reorganization, as amended (the [Plan](#)), established in connection with its demutualization, required that we establish and operate an accounting mechanism, known as a closed block, to ensure that the reasonable dividend expectations of policyholders who own certain individual insurance policies of MLIC are met. See Note 7 of the Notes to the Consolidated Financial Statements. We allocated assets to the closed block in

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an amount that will produce cash flows which, together with anticipated revenue from the policies included in the closed block, are reasonably expected to be sufficient to support obligations and liabilities relating to these policies, including, but not limited to, provisions for the payment of claims and certain expenses and tax, and to provide for the continuation of the policyholder dividend scales in effect for 1999, if the experience underlying such scales continues, and for appropriate adjustments in such scales if the experience changes. The closed block assets, the cash flows generated by the closed block assets and the anticipated revenue from the policies included in the closed block may not be sufficient to provide for the benefits guaranteed under these policies. If they are not, we must fund the shortfall. Even if they are sufficient, we may choose, for competitive reasons, to support policyholder dividend payments with our general account funds.

The closed block assets, the cash flows generated by the closed block assets and the anticipated revenues from the policies in the closed block will benefit only the holders of the policies in the closed block. In addition, to the extent that these amounts are greater than the amounts estimated at the time the closed block was funded, dividends payable in respect of the policies included in the closed block may be greater than they would be in the absence of a closed block. Any excess earnings will be available for distribution over time only to closed block policyholders.

***A Downgrade or a Potential Downgrade in Our Financial Strength or Credit Ratings Could Result in a Loss of Business and Materially Adversely Affect Our Financial Condition and Results of Operations***

Financial strength ratings, are published by various Nationally Recognized Statistical Rating Organizations ( NRSRO ) and similar entities not formally recognized as NRSROs. They indicate the NRSROs opinion regarding an insurance company s ability to meet contractholder and policyholder obligations, are important to maintaining public confidence in our products and our competitive position.

Downgrades in our financial strength ratings could have a material adverse effect on our financial condition and results of operations in many ways, including:

reducing new sales of insurance products, annuities and other investment products;

adversely affecting our relationships with our sales force and independent sales intermediaries;

materially increasing the number or amount of policy surrenders and withdrawals by contractholders and policyholders;

requiring us to post additional collateral under certain of our financing transactions;

requiring us to reduce prices for many of our products and services to remain competitive; and

adversely affecting our ability to obtain reinsurance at reasonable prices or at all.

In addition to the financial strength ratings of our insurance subsidiaries, various NRSROs also publish credit ratings for MetLife, Inc. and several of its subsidiaries. Credit ratings indicate the NRSROs opinion regarding a debt issuer s ability to meet the terms of debt obligations in a timely manner and are important factors in our overall funding profile and ability to access certain types of liquidity. Downgrades in our credit ratings could have a material adverse effect on our financial condition and results of operations in many ways, including limiting our access to capital markets, potentially increasing the cost of debt, and requiring us to post collateral. See Note 9 of the Notes to the Consolidated Financial Statements for information regarding the impact of a one-notch downgrade with respect to derivative transactions with credit rating downgrade triggers and Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources The Company Liquidity and Capital Uses Pledged Collateral for information on the impact of a two-notch downgrade. See Management s Discussion and Analysis of Financial Condition and Results of Operations The Company Capital Rating Agencies.

In view of the difficulties experienced by many financial institutions as a result of the global recession, including our competitors in the insurance industry, we believe it is possible that the NRSROs will continue to



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heighten the level of scrutiny that they apply to insurance companies, will continue to increase the frequency and scope of their credit reviews, will continue to request additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the models for maintenance of certain ratings levels. Our ratings could be downgraded at any time and without notice by any NRSRO.

***Reinsurance May Not Be Available, Affordable or Adequate to Protect Us Against Losses***

As part of our overall risk management strategy, we purchase reinsurance for certain risks underwritten by our various business segments. While reinsurance agreements generally bind the reinsurer for the life of the business reinsured at generally fixed pricing, market conditions beyond our control determine the availability and cost of the reinsurance protection for new business. In certain circumstances, the price of reinsurance for business already reinsured may also increase. Any decrease in the amount of reinsurance will increase our risk of loss and any increase in the cost of reinsurance will, absent a decrease in the amount of reinsurance, reduce our earnings. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business or result in the assumption of more risk with respect to those policies we issue. See [Business Reinsurance Activity](#) and [Risks Related to Our Business](#). If the Counterparties to Our Reinsurance or Indemnification Arrangements or to the Derivatives We Use to Hedge Our Business Risks Default or Fail to Perform, We May Be Exposed to Risks We Had Sought to Mitigate, Which Could Materially Adversely Affect Our Financial Condition and Results of Operations.

***If the Counterparties to Our Reinsurance or Indemnification Arrangements or to the Derivatives We Use to Hedge Our Business Risks Default or Fail to Perform, We May Be Exposed to Risks We Had Sought to Mitigate, Which Could Materially Adversely Affect Our Financial Condition and Results of Operations***

We use reinsurance, indemnification and derivatives to mitigate our risks in various circumstances. In general, reinsurance does not relieve us of our direct liability to our policyholders, even when the reinsurer is liable to us. Accordingly, we bear credit risk with respect to our reinsurers and indemnitors. A reinsurer's or indemnitor's insolvency, inability or unwillingness to make payments under the terms of reinsurance agreements or indemnity agreements with us could have a material adverse effect on our financial condition and results of operations, including our liquidity.

In addition, we use derivatives to hedge various business risks. We enter into a variety of derivatives, including options, forwards, interest rate, credit default and currency swaps with a number of counterparties. See [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) - [Investments](#). If our counterparties fail or refuse to honor their obligations under these derivatives, our hedges of the related risk will be ineffective. This risk is more pronounced in light of the stresses suffered by financial institutions over the past few years. Such failure could have a material adverse effect on our financial condition and results of operations. See [Business Reinsurance Activity](#).

***Differences Between Actual Claims Experience and Underwriting and Reserving Assumptions May Adversely Affect Our Financial Results***

Our earnings significantly depend upon the extent to which our actual claims experience is consistent with the assumptions we use in setting prices for our products and establishing liabilities for future policy benefits and claims. Such amounts are established based on estimates by actuaries of how much we will need to pay for future benefits and claims. To the extent that actual claims experience is less favorable than the underlying assumptions we used in establishing such liabilities, we could be required to increase our liabilities.

Due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of liabilities for future policy benefits and claims, we cannot determine precisely the amounts which we will ultimately pay to settle our liabilities. Such amounts may vary from the estimated amounts, particularly when those payments may not occur until well into the future. We evaluate our liabilities periodically based on



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accounting requirements, which change from time to time, the assumptions used to establish the liabilities, as well as our actual experience. If the liabilities originally established for future benefit payments prove inadequate, we must increase them. Such increases could affect earnings negatively and have a material adverse effect on our business, results of operations and financial condition. See Business Policyholder Liabilities and Management's Discussion and Analysis of Financial Condition and Results of Operations Policyholder Liabilities.

***Our Risk Management Policies and Procedures May Leave Us Exposed to Unidentified or Unanticipated Risk, Which Could Negatively Affect Our Business***

We have devoted significant resources to develop and periodically update our risk management policies and procedures to reflect ongoing review of our risks and expect to continue to do so in the future. Nonetheless, our policies and procedures may not be comprehensive and may not identify every risk to which we are exposed. Many of our methods for managing risk and exposures are based upon the use of observed historical market behavior or statistics based on historical models. As a result, these methods may not fully predict future exposures, which can be significantly greater than our historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated. In addition, more extensive and perhaps different risk management policies and procedures might have to be implemented under pending regulations. See Business U.S. Regulation Potential Regulation as a Non-Bank SIFI and Quantitative and Qualitative Disclosures About Market Risk.

***Catastrophes May Adversely Impact Liabilities for Policyholder Claims and Reinsurance Availability***

Our insurance operations are exposed to the risk of catastrophic events. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, earthquakes, tsunamis and man-made catastrophes may produce significant damage or loss of life or property damage in larger areas, especially those that are heavily populated. Claims resulting from catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. In addition, catastrophic events could harm the financial condition of issuers of obligations we hold in our investment portfolio, resulting in impairments to these obligations, and the financial condition of our reinsurers, thereby increasing the probability of default on reinsurance recoveries. Large-scale catastrophes may also reduce the overall level of economic activity in affected countries which could hurt our business and the value of our investments or our ability to write new business. It is possible that increases in the value, caused by the effects of inflation or other factors, and geographic concentration of insured lives or property, could increase the severity of claims we receive from future catastrophic events.

Our life insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. Significant influenza pandemics have occurred three times in the last century; however, the likelihood, timing, and severity of a future pandemic cannot be predicted. A significant pandemic could have a major impact on the global economy or the economies of particular countries or regions, including travel, trade, tourism, the health system, food supply, consumption, overall economic output and, eventually, on the financial markets. In addition, a pandemic that affected our employees or the employees of our distributors or of other companies with which we do business could disrupt our business operations. The effectiveness of external parties, including governmental and non-governmental organizations, in combating the spread and severity of such a pandemic could have a material impact on the losses experienced by us. In our group insurance operations, a localized event that affects the workplace of one or more of our group insurance customers could cause a significant loss due to mortality or morbidity claims. These events could cause a material adverse effect on our results of operations in any period and, depending on their severity, could also materially and adversely affect our financial condition.

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Our property & casualty businesses have experienced, and will likely in the future experience, catastrophe losses that may have a material adverse impact on their business, results of operations and financial condition. Although we make every effort to limit our exposure to catastrophic risks through volatility management and reinsurance programs, these efforts do not eliminate all risk. Catastrophes can be caused by various events, including hurricanes, windstorms, earthquakes, hail, tornadoes, explosions, severe winter weather (including snow, freezing water, ice storms and blizzards), fires and man-made events such as terrorist attacks. Historically, substantially all of our property & casualty catastrophe-related claims have related to homeowners coverages. However, catastrophes may also affect other property & casualty coverages. Due to their nature, we cannot predict the incidence, timing and severity of catastrophes. In addition, changing climate conditions, primarily rising global temperatures, may increase the frequency and severity of natural catastrophes such as hurricanes.

Areas of major hurricane exposure include coastal sections of the northeastern U.S. (including lower New York, Connecticut, Rhode Island and Massachusetts), the Gulf Coast (including Alabama, Mississippi, Louisiana and Texas) and Florida. We also have some earthquake exposure, primarily along the New Madrid fault line in the central U.S. and in the Pacific Northwest.

Consistent with industry practice and accounting standards, we establish liabilities for claims arising from a catastrophe only after assessing the probable losses arising from the event. We cannot be certain that the liabilities we have established will be adequate to cover actual claim liabilities. From time to time, states have passed legislation that has the effect of limiting the ability of insurers to manage risk, such as legislation restricting an insurer's ability to withdraw from catastrophe-prone areas. While we attempt to limit our exposure to acceptable levels, subject to restrictions imposed by insurance regulatory authorities, a catastrophic event or multiple catastrophic events could have a material adverse effect on our business, results of operations and financial condition.

Most of the jurisdictions in which our U.S. insurance subsidiaries are admitted to transact business require life and property & casualty insurers doing business within the jurisdiction to participate in guaranty associations. These associations are organized to pay contractual benefits owed pursuant to insurance policies issued by impaired, insolvent or failed insurers, who may become impaired, insolvent or fail, for example, following the occurrence of one or more catastrophic events. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. In addition, certain states have government owned or controlled organizations providing life and property & casualty insurance to their citizens. The activities of such organizations could also place additional stress on the adequacy of guaranty fund assessments. Many of these organizations also have the power to levy assessments similar to those of the guaranty associations described above. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. See [Business U.S. Regulation Insurance Regulation Guaranty Associations and Similar Arrangements](#) and [Business International Regulation](#).

While in the past five years, the aggregate assessments levied against MetLife, Inc.'s insurance subsidiaries have not been material, it is possible that a large catastrophic event could render such guaranty funds inadequate and we may be called upon to contribute additional amounts, which may have a material impact on our financial condition or results of operations in a particular period. We have established liabilities for guaranty fund assessments that we consider adequate, but additional liabilities may be necessary. See Note 21 of the Notes to the Consolidated Financial Statements.

Our ability to manage this risk and the profitability of our property & casualty and life insurance businesses depends in part on our ability to obtain catastrophe reinsurance, which may not be available at commercially acceptable rates in the future. See [Risks Related to Our Business Reinsurance May Not Be Available, Affordable or Adequate to Protect Us Against Losses](#).

**Table of Contents*****Our Statutory Life Insurance Reserve Financings May Be Subject to Cost Increases and New Financings May Be Subject to Limited Market Capacity***

To support statutory reserves for several products, including, but not limited to, our level premium term life and universal life with secondary guarantees and MLIC's closed block, we currently utilize capital markets solutions for financing a portion of our statutory reserve requirements. While we have financing facilities in place for certain previously written business, certain of these facilities are subject to cost increases upon the occurrence of specified ratings downgrades of MetLife or are subject to periodic repricing. Any resulting cost increases could negatively impact our financial results.

Future capacity for these statutory reserve funding structures in the marketplace is not guaranteed. Currently, the use of captive reinsurers is being studied by the Department of Financial Services and the NAIC. See **Regulatory and Legal Risks** **Our Insurance and Brokerage Businesses are Highly Regulated, and Changes in Regulation in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth**. If the Department of Financial Services or other state insurance regulators determine to restrict the use of captive reinsurers for purposes of funding reserve requirements or capacity in the capital markets otherwise becomes unavailable for a prolonged period of time, thereby hindering our ability to obtain funding for these new structures, our ability to write additional business in a cost effective manner may be impacted.

***Competitive Factors May Adversely Affect Our Market Share and Profitability***

We believe competition amongst insurance companies is based on a number of factors, including service, product features, scale, price, financial strength, claims-paying ratings, credit ratings, e-business capabilities and name recognition. We compete globally, with a large number of other insurance companies, as well as non-insurance financial services companies, such as banks, broker-dealers and asset managers, for individual consumers, employers and other group customers and agents and other distributors of insurance and investment products. Some of these companies offer a broader array of products, have more competitive pricing or, with respect to other insurance companies, have higher claims paying ability ratings. Some may also have greater financial resources with which to compete. In some circumstances, national banks that sell annuity products of life insurers may also have pre-existing customer bases for financial services products. Additionally, many of our group insurance products are underwritten annually. There is a risk that group purchasers may be able to obtain more favorable terms from competitors than they could renewing coverage with us. These competitive pressures may adversely affect the persistency of these and other products, as well as our ability to sell our products in the future. Furthermore, the investment management and securities brokerage businesses have relatively few barriers to entry and continually attract new entrants. See **Business** **Competition**.

The insurance industry distributes many of its individual products through other financial institutions such as banks and broker-dealers. An increase in bank and broker-dealer consolidation activity may negatively impact the industry's sales, and such consolidation could increase competition for access to distributors, result in greater distribution expenses and impair our ability to market insurance products to our current customer base or to expand our customer base. Consolidation of distributors and/or other industry changes may also increase the likelihood that distributors will try to renegotiate the terms of any existing selling agreements to terms less favorable to us.

In addition, since numerous aspects of our business are subject to regulation, legislative and other changes affecting the regulatory environment for our business may have, over time, the effect of supporting or burdening some aspects of the financial services industry more than others. This can affect our competitive position within the life insurance industry and within the broader financial services industry. See **Business** **U.S. Regulation**, **Business** **International Regulation**, **Regulatory and Legal Risks** **Our Insurance and Brokerage Businesses are Highly Regulated and Changes in Regulation May Reduce Our Profitability and Limit Our Growth**, and **Regulatory and Legal Risks** **Changes in U.S. Federal and State Securities Laws and Regulations, and State Insurance Regulations Regarding Suitability of Annuity Product Sales, May Affect Our Operations and Our Profitability**.

**Table of Contents*****If Our Business Does Not Perform Well, We May Be Required to Recognize an Impairment of Our Goodwill or Other Long-Lived Assets or to Establish a Valuation Allowance Against the Deferred Income Tax Asset, Which Could Adversely Affect Our Results of Operations or Financial Condition***

Goodwill is the excess of cost over the estimated fair value of net assets acquired which represents the future economic benefits arising from such net assets acquired that could not be individually identified. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that the implied fair value of the reporting unit is less than the carrying value of that reporting unit. We perform our annual goodwill impairment testing during the third quarter of each year based upon data as of the close of the second quarter. Goodwill associated with a business acquisition is not tested for impairment during the year the business is acquired unless there is a significant identified impairment event. Impairment testing is performed using the fair value approach, which requires the use of estimates and judgment, at the reporting unit level. A reporting unit is the operating segment or a business one level below the operating segment under certain circumstances.

The estimated fair value of the reporting unit is impacted by the performance of the business, which may be adversely impacted by prolonged market declines. If it is determined that the goodwill has been impaired, we must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such writedowns could have an adverse effect on our results of operations or financial position. For instance, for the third quarter of 2012, we reported a \$1.6 billion, after tax, goodwill impairment, which reflects the impact of the then current market and economic conditions on the estimated fair value of our U.S. retail annuity business. This impairment contributed to a net loss of \$984 million reported by us for that period. See Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates Goodwill and Note 11 of the Notes to the Consolidated Financial Statements.

Long-lived assets, including assets such as real estate, also require impairment testing. This testing is done to determine whether changes in circumstances indicate that we will be unable to recover the carrying amount of the asset group. Such writedowns could have a material adverse effect on our results of operations or financial position.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management's determination include the performance of the business including the ability to generate future taxable income. If, based on available information, it is more likely than not that the deferred income tax asset will not be realized then a valuation allowance must be established with a corresponding charge to net income. Such charges could have a material adverse effect on our results of operations or financial position. In addition, changes in the corporate tax rates could affect the value of our deferred tax assets and may require a write-off of some of those assets. See Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates Income Tax.

***If Our Business Does Not Perform Well or if Actual Experience Versus Estimates Used in Valuing and Amortizing DAC, Deferred Sales Inducements ( DSI ) and VOBA Vary Significantly, We May Be Required to Accelerate the Amortization and/or Impair the DAC, DSI and VOBA Which Could Adversely Affect Our Results of Operations or Financial Condition***

We incur significant costs in connection with acquiring new and renewal insurance business. Costs that are related directly to the successful acquisition of new and renewal insurance business are deferred and referred to as DAC. Bonus amounts credited to certain policyholders, either immediately upon receiving a deposit or as excess interest credits for a period of time, are deferred and referred to as DSI. The recovery of DAC and DSI is dependent upon the future profitability of the related business. The amount of future profit or margin is dependent principally on investment returns in excess of the amounts credited to policyholders, mortality, morbidity, persistency, interest crediting rates, dividends paid to policyholders, expenses to administer the

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business, creditworthiness of reinsurance counterparties and certain economic variables, such as inflation. Of these factors, we anticipate that investment returns are most likely to impact the rate of amortization of such costs. The aforementioned factors enter into management's estimates of gross profits or margins, which generally are used to amortize such costs.

If actual gross profits or margins are less than originally expected, then the amortization of such costs would be accelerated in the period the actual experience is known and would result in a charge to income. Significant or sustained equity market declines could result in an acceleration of amortization of DAC and DSI related to variable annuity and variable universal life contracts, resulting in a charge to income. Such adjustments could have a material adverse effect on our results of operations or financial condition. See Management's Discussion and Analysis of Financial Condition and Results of Operations Industry Trends Impact of Sustained Low Interest Rate Environment for a discussion of how significantly lower spreads may cause us to accelerate amortization, thereby reducing net income in the affected reporting period.

VOBA represents the excess of book value over the estimated fair value of acquired insurance, annuity, and investment-type contracts in-force at the acquisition date. The estimated fair value of the acquired liabilities is based on actuarially determined projections, by each block of business, of future policy and contract charges, premiums, mortality and morbidity, separate account performance, surrenders, operating expenses, investment returns, nonperformance risk adjustment and other factors. In the event actual experience on the purchased business varies from these projections, we will be required to revise our estimates, which results in changes to the amounts expensed in the reporting period in which the revisions are made and also could result in a charge to income. In addition, VOBA is amortized similarly to DAC and DSI. Accordingly, an acceleration of the amortization of VOBA would occur if actual gross profits or margins are less than originally expected. In such a case, the amortization of such costs would be accelerated in the period in which the actual experience is known and would result in a charge to net income. Furthermore, significant or sustained equity market declines could result in an acceleration of amortization of the VOBA related to variable annuity and variable universal life contracts, resulting in a charge to income. Such adjustments could have a material adverse effect on our results of operations or financial condition. See Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Critical Accounting Estimates Deferred Policy Acquisition Costs and Value of Business Acquired and Note 1 of the Notes to the Consolidated Financial Statements for further consideration of DAC and VOBA.

***Guarantees Within Certain of Our Products May Decrease Our Earnings, Increase the Volatility of Our Results, Result in Higher Risk Management Costs and Expose Us to Increased Counterparty Risk***

Certain of our variable annuity products include guaranteed benefits, including guaranteed minimum death benefits, guaranteed minimum withdrawal benefits, guaranteed minimum accumulation benefits, and guaranteed minimum income benefits. These guarantees are designed to protect policyholders against significant downturns in equity markets and interest rates. Any such periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of our liabilities associated with those products. An increase in these liabilities would result in a decrease in our net income.

We use hedging and risk management strategies to mitigate the liability exposure and the volatility of net income associated with these liabilities. These strategies involve the use of reinsurance and derivatives, which may not be completely effective. For example, in the event that reinsurers or derivative counterparties are unable or unwilling to pay, we remain liable for the guaranteed benefits. See Risks Related to Our Business If the Counterparties to Our Reinsurance or Indemnification Arrangements or to the Derivatives We Use to Hedge Our Business Risks Default or Fail to Perform, We May Be Exposed to Risks We Had Sought to Mitigate, Which Could Materially Adversely Affect Our Financial Condition and Results of Operations.

In addition, hedging instruments may not effectively offset the costs of guarantees or may otherwise be insufficient in relation to our obligations. Furthermore, we are subject to the risk that changes in policyholder

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behavior or mortality, combined with adverse market events, produce economic losses not addressed by the risk management techniques employed. These, individually or collectively, may have a material adverse effect on our results of operations, including net income, financial condition or liquidity. See Management's Discussion and Analysis of Results of Operations and Financial Condition Policyholder Liabilities Variable Annuity Guarantees and Note 1 of the Notes to the Consolidated Financial Statements for further consideration of the risks associated with guaranteed benefits.

### **Acquisition-Related Risks**

#### ***We Could Face Unforeseen Liabilities, Asset Impairments or Rating Actions Arising from Acquisitions and Dispositions of Businesses or Difficulties Integrating and Managing Growth of Such Businesses***

We have engaged in dispositions and acquisitions of businesses in the past, and expect to continue to do so in the future. Such activity exposes us to a number of risks. For example, there could be unforeseen liabilities or asset impairments, including goodwill impairments, that arise in connection with the businesses that we may sell or the businesses that we may acquire in the future.

In addition, there may be liabilities or asset impairments that we fail, or are unable, to discover in the course of performing acquisition-related due diligence investigations. Furthermore, even for obligations and liabilities that we do discover during the due diligence process, neither the valuation adjustment nor the contractual protections we negotiate may be sufficient to fully protect us from losses. Although we generally have rights to indemnification for certain losses, our rights are limited by survival periods for bringing claims and limitations on the nature and amount of losses we may recover, and we cannot be certain that indemnification will be, among other things, collectible or sufficient in amount, scope or duration to fully offset any loss we may suffer. For example, we are indemnified under the stock purchase agreement dated as of March 7, 2010, as amended, by and among MetLife, Inc. AIG and AM Holdings (the "Stock Purchase Agreement"), for various tax matters, including U.S. federal income taxes attributable to periods during which the ALICO business was included in AIG's consolidated federal income tax return. It is possible, however, that any such indemnification may not be fully collectible.

Furthermore, the use of our own funds as consideration in any acquisition would consume capital resources, which could affect our capital plan and render those funds unavailable for other corporate purposes. We also may not be able to raise sufficient funds to consummate an acquisition if, for example, we are unable to sell our securities or close related bridge credit facilities. Moreover, as a result of uncertainty and risks associated with potential acquisitions and dispositions of businesses, rating agencies may take certain actions with respect to the ratings assigned to MetLife, Inc. and/or its subsidiaries.

Our ability to achieve certain benefits we anticipate from any acquisitions of businesses will depend in large part upon our ability to successfully integrate such businesses in an efficient and effective manner. We may not be able to integrate such businesses smoothly or successfully, and the process may take longer than expected. The integration of operations and differences in operational culture may require the dedication of significant management resources, which may distract management's attention from day-to-day business. If we are unable to successfully integrate the operations of such acquired businesses, we may be unable to realize the benefits we expect to achieve as a result of such acquisitions and our business and results of operations may be less than expected.

The success with which we are able to integrate acquired operations will depend on our ability to manage a variety of issues, including the following:

Loss of key personnel or higher than expected employee attrition rates could adversely affect the performance of the acquired business and our ability to integrate it successfully.

Customers of the acquired business may reduce, delay or defer decisions concerning their use of its products and services as a result of the acquisition or uncertainty related to the consummation of the acquisition, including, for example, potential unfamiliarity with the MetLife brand in regions where we did not have a market presence prior to the acquisition.

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If the acquired business relies upon independent distributors to distribute its products, these distributors may not continue to generate the same volume of business for us after the acquisition. Independent distributors may reexamine the scope of their relationship with the acquired business or us as a result of the acquisition and decide to curtail or eliminate distribution of our products.

Integrating acquired operations with our existing operations may require us to coordinate geographically separated organizations, address possible differences in corporate culture and management philosophies, merge financial processes and risk and compliance procedures, combine separate information technology platforms and integrate operations that were previously closely tied to the former parent of the acquired business or other service providers.

In cases where we or an acquired business operates in certain markets through joint ventures, the acquisition may affect the continued success and prospects of the joint venture. Our ability to exercise management control or influence over these joint venture operations and our investment in them will depend on the continued cooperation between the joint venture participants and on the terms of the joint venture agreements, which allocate control among the joint venture participants. We may face financial or other exposure in the event that any of these joint venture partners fail to meet their obligations under the joint venture, encounter financial difficulty or elect to alter, modify or terminate the relationship.

We may incur significant costs in connection with any acquisition and the related integration. The costs and liabilities actually incurred in connection with an acquisition and subsequent integration process may exceed those anticipated.

The prospects of our business also may be materially and adversely affected if we are not able to manage the growth of any acquired business successfully. For example, the life insurance markets in many of the international markets we entered through the ALICO Acquisition have experienced significant growth in recent years. Management of growth in these markets to date has required significant management and operational resources and is likely to continue to do so. Future growth of our combined business will require, among other things, the continued development of adequate underwriting and claim handling capabilities and skills, sufficient capital base, increased marketing and sales activities, and the hiring and training of new personnel.

There can be no assurance that we will be successful in managing future growth of any acquired business. In particular, there may be difficulties in hiring and training sufficient numbers of customer service personnel and agents to keep pace with any future growth in the number of customers in our developing or developed markets. In addition, we may experience difficulties in upgrading, developing and expanding information technology systems quickly enough to accommodate any future growth. If we are unable to manage future growth, our prospects may be materially and adversely affected.

***The Closing Agreement American Life Entered Into With the IRS May Not Achieve Its Intended Effect and American Life May Not Be Able to Comply with the Related Agreed Upon Plan***

On November 1, 2010, we acquired all of the outstanding stock of American Life from AIG. Prior to this acquisition, in March 2010, American Life entered into a closing agreement (the Closing Agreement ) with the Commissioner of the IRS to resolve a U.S. withholding tax issue arising from payments by its foreign branches. IRS Revenue Ruling 2004-75 requires foreign branches of U.S. life insurance companies in certain circumstances to withhold U.S. income taxes on payments, made with respect to certain insurance and annuity products, to customers resident in a foreign country. The Closing Agreement provides that American Life's foreign branches, now part of MetLife, will not be required to withhold U.S. income tax on the income portion of payments made pursuant to American Life's life insurance and annuity contracts ( Covered Payments ) for any tax periods beginning on or after January 1, 2005 and ending on or before December 31, 2013 (the Deferral Period ).

In accordance with the Closing Agreement, American Life has submitted a plan (and quarterly updates) to the IRS indicating the steps American Life will take (on a country by country basis) to ensure that no substantial

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amount of U.S. withholding tax will arise from Covered Payments made by American Life's foreign branches to foreign customers after the Deferral Period. The plan American Life delivered to the IRS involves (i) selling some of its branch businesses and (ii) transferring businesses from certain other of its foreign branches to one or more existing or newly-formed foreign affiliates of American Life. The achievement of the plan presented to the IRS within the required time frame of December 31, 2013 is contingent upon regulatory approvals and other requirements. Failure to achieve the plan (or an extension) in a timely manner could cause American Life to be required to withhold U.S. income taxes on the taxable portion of payments with respect to certain insurance and annuity products made by American Life's foreign branches after December 31, 2013 to customers resident in a foreign country. This could put American Life at a competitive disadvantage with its competitors that sell similar products through foreign entities and could have a material adverse effect on American Life's future revenues or expenses or both. See Note 3 of the Notes to the Consolidated Financial Statements.

***The Settlement of Our Outstanding Common Equity Units Will Have a Dilutive Impact on MetLife, Inc.'s Stockholders***

As part of the consideration paid for the ALICO Acquisition, MetLife, Inc. issued \$3.0 billion aggregate stated amount of common equity units, which initially consist of (x) purchase contracts obligating the holder to purchase a variable number of shares of MetLife, Inc.'s common stock on each of three specified future settlement dates (the first settlement date was October 10, 2012 and the other two are expected to occur on September 11, 2013 and October 8, 2014, subject to deferral under certain circumstances) for a fixed amount per purchase contract (an aggregate of \$1.0 billion on each settlement date) (the Stock Purchase Contracts) and (y) an interest in each of three series of debt securities of MetLife, Inc. On the first settlement date, MetLife issued 28,231,956 million shares. After settlement of the remaining purchase contracts, MetLife, Inc. will receive proceeds of \$2 billion and issue between 45.2 million and 56.5 million shares of its common stock, subject to certain adjustments, in addition to the proceeds received and shares issued on the first settlement date in October 2012. As a result, more shares of common stock will be outstanding and each existing stockholder will own a smaller percentage of our common stock than outstanding. See Note 15 of the Notes to the Consolidated Financial Statements.

**Capital-Related Risks**

***We Have Been, and May Continue to be, Prevented from Repurchasing Our Stock and Paying Dividends at the Level We Wish as a Result of Regulatory Restrictions and Restrictions Under the Terms of Certain of Our Securities***

The declaration and payment of dividends is subject to the discretion of our Board of Directors, and will depend on our financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends and our other insurance subsidiaries and other factors deemed relevant by the Board. There is no requirement or assurance that we will declare and pay any dividends. In addition, payment of dividends on our common stock and our ability to repurchase our common stock have been subject to restrictions arising from our regulation as a bank holding company and may again be subject to restrictions arising from Federal Reserve regulation if we are designated a non-bank SIFI. In addition, our ability to pay dividends on our common stock and repurchase our common stock is subject to restrictions arising from the terms of our preferred stock, junior subordinated debentures and trust securities, so called dividend stopper provisions, in situations where we may be experiencing financial stress. For purposes of this discussion, junior subordinated debentures are deemed to include MetLife, Inc.'s Fixed-to-Floating Exchangeable Surplus Trust Securities, which are exchangeable for junior subordinated debentures, and which contain terms with the same substantive effects in this discussion as the terms of MetLife's junior subordinated debentures. In addition, our ability to pay dividends on our preferred stock and interest on our junior subordinated debentures are also restricted by the terms of those securities.



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*Regulatory Restrictions.* The Federal Reserve has proposed enhanced prudential standards, including heightened capital requirements and stress testing requirements, for non-bank SIFIs. It is possible that these requirements, or any others adopted, could restrict our ability to pay dividends and repurchase our common stock if we were designated a non-bank SIFI. In addition, MetLife, Inc. may not be able to pay dividends if it does not receive sufficient funds from its operating subsidiaries, which are themselves subject to separate regulatory restrictions on their ability to pay dividends. See *As A Holding Company, MetLife, Inc. Depends on the Ability of Its Subsidiaries to Transfer Funds to Meet Its Obligations and Pay Dividends.*

*Dividend Stopper Provisions in Our Preferred Stock and Junior Subordinated Debentures.* Certain terms of our preferred stock and our junior subordinated debentures may prevent us from purchasing our common stock or paying dividends on our common stock in certain circumstances. Moreover, MetLife, Inc. is a party to certain replacement capital covenants which limit its ability to eliminate these restrictions through the repayment, redemption or purchase of preferred stock or junior subordinated debentures by requiring MetLife, subject to certain limitations, to receive cash proceeds during a specified period from the sale of specified replacement securities prior to any repayment, redemption or purchase. See Note 14 of the Notes to the Consolidated Financial Statements for a description of such covenants in effect with respect to junior subordinated debentures and Note 16 of the Notes to the Consolidated Financial Statements for a description of such restrictions with respect to the preferred stock.

Under our preferred stock and junior subordinated debentures, if we have not paid the full dividends on our preferred stock for a dividend period, we may not repurchase or pay dividends on our common stock for that period. If we have not paid in full the accrued interest through the most recent interest payment date on our junior subordinated debentures, we may not repurchase or pay dividends on our common stock or other capital stock (including the preferred stock), subject to certain exceptions.

*Trigger Events for the Restrictions on the Payment of Dividends on Our Preferred Stock and Restrictions on the Payment of Interest on Our Junior Subordinated Debentures.* In addition, the preferred stock and the junior subordinated debentures contain provisions that would automatically suspend the payment of preferred stock dividends and junior subordinated debenture interest payments if MetLife, Inc. fails to meet certain tests ( *Trigger Events* ) at specified times, although in such cases MetLife would be permitted to make the payments if it were able to utilize the *Alternative Payment Mechanism* described below. As a result of the suspension of these payments, the *dividend stopper* provisions would come into effect. A *Trigger Event* would occur if the risk-based capital ratio of MetLife's largest U.S. insurance subsidiaries in the aggregate (as defined in the applicable instrument) were to be less than 175% of the company action level based on the subsidiaries' prior year annual financial statements filed (generally around March 1) with state insurance commissioners. A *Trigger Event* would also occur if, at the end of a quarter, consolidated GAAP net income for the four-quarter period ending two quarters before such quarter-end is zero or less and adjusted shareholders' equity (as defined in the applicable instrument), as of such quarter-end and the end of the quarter two quarters before such quarter-end, declined by 10% or more from its level 10 quarters before such quarter-end. The *Trigger Event* would continue until there is no longer a *Trigger Event* at the specified time, and adjusted shareholders' equity is no longer 10% or more below its level at the beginning of each measurement period described above that is associated with a *Trigger Event*.

In order to use the *Alternative Payment Mechanism* referred to above to declare and pay preferred stock dividends or interest on junior subordinated debentures, MetLife must sell common stock during the 90 days preceding the dividend declaration date or sell common stock or certain kinds of warrants to purchase common stock during the 180 days prior to the interest payment date, make dividend or interest payments not in excess of the net proceeds of these sales, and satisfy other specified conditions.

*Dividends on Our Preferred Stock Are Subject to Declaration by Our Board of Directors.* In addition to the provisions described above that prevent us from declaring and paying dividends on our preferred stock, dividends on our preferred stock are subject to declaration each quarter by our Board of Directors. If our Board of Directors

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does not declare dividends on the preferred stock for any quarterly dividend period, the dividend stopper provisions in our preferred stock would prevent us from repurchasing or paying dividends on our common stock for that period.

*Optional Deferral of Interest on the Junior Subordinated Debentures.* The junior subordinated debentures provide that MetLife may, at its option and provided that certain conditions are met, defer payment of interest without giving rise to an event of default for periods of up to 10 years (although after five years MetLife, Inc. would be obligated to use commercially reasonable efforts to sell equity securities to raise proceeds to pay the interest), with no limitation on the number of deferral periods that MetLife, Inc. may begin so long as all accrued and unpaid interest is paid with respect to prior deferral periods. If MetLife, Inc. were to elect to defer payments of interest, the dividend stopper provisions in the junior subordinated debentures would thus prevent MetLife, Inc. from repurchasing or paying dividends on its common stock or other capital stock (including the preferred stock) during the period of deferral, subject to exceptions.

See Note 16 of the Notes to the Consolidated Financial Statements for additional information about these restrictions.

***As a Holding Company, MetLife, Inc. Depends on the Ability of Its Subsidiaries to Transfer Funds to It to Meet Its Obligations and Pay Dividends***

MetLife, Inc. is a holding company for its insurance and financial subsidiaries and does not have any significant operations of its own. Dividends from its subsidiaries and permitted payments to it under its tax sharing arrangements with its subsidiaries are its principal sources of cash to meet its obligations and to pay preferred and common stock dividends. If the cash MetLife, Inc. receives from its subsidiaries is insufficient for it to fund its debt service and other holding company obligations, MetLife, Inc. may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets.

The payment of dividends and other distributions to MetLife, Inc. by its U.S. insurance subsidiaries is regulated by insurance laws and regulations. In general, dividends in excess of prescribed limits require insurance regulatory approval. In addition, insurance regulators may prohibit the payment of dividends or other payments by its insurance subsidiaries to MetLife, Inc. if they determine that the payment could be adverse to our policyholders or contractholders. The payment of dividends and other distributions by insurance companies is also influenced by business conditions and rating agency considerations. See *Business U.S. Regulation Insurance Regulation and Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources MetLife, Inc. Liquidity and Capital Sources Dividends from Subsidiaries*. The ability of MetLife Bank to pay dividends is also subject to regulation by the OCC. See also *Regulatory and Legal Risks Our Insurance and Brokerage Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth*.

Any payment of interest, dividends, distributions, loans or advances by our foreign subsidiaries and branches to MetLife, Inc. could be subject to taxation or other restrictions on dividends or repatriation of earnings under applicable law, monetary transfer restrictions and foreign currency exchange regulations in the jurisdiction in which such foreign subsidiaries operate. See *Business International Regulation and Risks Related to Our Business Our International Operations Face Political, Legal, Operational and Other Risks, Including Exposure to Local and Regional Economic Conditions, That Could Negatively Affect Those Operations or Our Profitability*.

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### **General Risks**

#### ***MetLife, Inc.'s Board of Directors May Control the Outcome of Stockholder Votes on Many Matters Due to the Voting Provisions of the MetLife Policyholder Trust***

Under the Plan, we established the MetLife Policyholder Trust to hold the shares of MetLife, Inc. common stock allocated to eligible policyholders not receiving cash or policy credits under the plan. As of February 19, 2013, the Trust held 201,024,039 shares, or 18.4%, of the outstanding shares of MetLife, Inc. common stock. Because of voting provisions of the Trust and the number of shares held by it, the Trust may affect the outcome of matters brought to a stockholder vote. Except on votes regarding certain fundamental corporate actions described below, the trustee will vote all of the shares of common stock held in the Trust in accordance with the recommendations given by MetLife, Inc.'s Board of Directors to its stockholders or, if the Board gives no such recommendations, as directed by the Board. As a result of the voting provisions of the Trust, the Board of Directors may be able to control votes on matters submitted to a vote of stockholders, excluding certain fundamental corporate actions, so long as the Trust holds a substantial number of shares of common stock.

If the vote relates to fundamental corporate actions specified in the Trust, the trustee will solicit instructions from the Trust beneficiaries and vote all shares held in the Trust in proportion to the instructions it receives. These actions include:

an election or removal of directors in which a stockholder has properly nominated one or more candidates in opposition to a nominee or nominees of MetLife, Inc.'s Board of Directors or a vote on a stockholder's proposal to oppose a Board nominee for director, remove a director for cause or fill a vacancy caused by the removal of a director by stockholders, subject to certain conditions;

a merger or consolidation, a sale, lease or exchange of all or substantially all of the assets, or a recapitalization or dissolution, of MetLife, Inc., in each case requiring a vote of stockholders under applicable Delaware law;

any transaction that would result in an exchange or conversion of shares of common stock held by the Trust for cash, securities or other property; and

any proposal requiring MetLife, Inc.'s Board of Directors to amend or redeem the rights under MetLife, Inc.'s stockholder rights plan, other than a proposal with respect to which we have received advice of nationally-recognized legal counsel to the effect that the proposal is not a proper subject for stockholder action under Delaware law. MetLife, Inc. does not currently have a stockholder rights plan.

If a vote concerns any of these fundamental corporate actions, the trustee will vote all of the shares of common stock held by the Trust in proportion to the instructions it received, which will give disproportionate weight to the instructions actually given by Trust beneficiaries.

The MetLife Policyholder Trust Agreement provides that we may terminate the Trust once the percentage of outstanding shares held in the Trust falls to 25%. The winding up of the Trust must commence 90 days after we provide the trustee with notice that the percentage of outstanding shares held in the Trust is 10% or less. In connection with any termination of the Trust, all of the shares of common stock then held in the Trust will need to be distributed to the respective Trust beneficiaries, unless we offer to purchase all or a portion of such Trust shares. In connection with such a distribution, we may incur costs related to an increase in the number of shareholders, which may include increased mailing and proxy solicitation expenses.

#### ***Changes in Accounting Standards Issued by the Financial Accounting Standards Board or Other Standard-Setting Bodies May Adversely Affect Our Financial Statements***

Our financial statements are subject to the application of GAAP, which is periodically revised and/or expanded. Accordingly, from time to time we are required to adopt new or revised accounting standards issued by recognized

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authoritative bodies, including the Financial Accounting Standards Board. For instance, we recently adopted new guidance regarding accounting for DAC, which resulted in a reduction of DAC and total equity. The impact of accounting pronouncements that have been issued but not yet implemented is disclosed in our reports filed with the SEC. See Note 1 of the Notes to the Consolidated Financial Statements. An assessment of proposed standards is not provided as such proposals are subject to change through the exposure process and, therefore, the effects on our financial statements cannot be meaningfully assessed. The required adoption of future accounting standards could have a material adverse effect on our financial condition and results of operations, including on our net income.

***Changes in Our Assumptions Regarding the Discount Rate, Expected Rate of Return and Expected Increase in Compensation Used for Our Pension and Other Postretirement Benefit Plans May Result in Increased Expenses and Reduce Our Profitability***

We determine our pension and other postretirement benefit plan costs based on our best estimates of future plan experience. These assumptions are reviewed regularly and include discount rates, expected rates of return on plan assets, expected increases in compensation levels and expected medical inflation. Changes in these assumptions may result in increased expenses and reduce our profitability. See Note 18 of the Notes to the Consolidated Financial Statements for details on how changes in these assumptions would affect plan costs.

***We May Not be Able to Protect Our Intellectual Property and May be Subject to Infringement Claims***

We rely on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete with other insurers and financial institutions.

In addition, we may be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of patent, trademark or copyright license usage rights, or (iii) misappropriation of trade secrets. Any such claims or resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain patents, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly alternative. Any of these scenarios could have a material adverse effect on our business and results of operations.

***We May Be Unable to Attract and Retain Sales Representatives for Our Products***

We must attract and retain productive sales representatives to sell our insurance, annuities and investment products. Insurers compete for sales representatives with demonstrated ability. In addition, there is competition for representatives with other types of financial services firms, such as independent broker-dealers.

We compete with other insurers for sales representatives primarily on the basis of our financial position, support services and compensation and product features. We continue to undertake several initiatives to enhance the efficiency and production of our existing sales force. These initiatives may not succeed in attracting and retaining new agents. Sales of individual insurance, annuities and investment products and our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining highly qualified and productive agents. See Business Competition.

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***State Laws, Federal Laws, Our Certificate of Incorporation and Our By-Laws May Delay, Deter or Prevent Takeovers and Business Combinations that Stockholders Might Consider in Their Best Interests***

State laws, federal laws and our certificate of incorporation and by-laws may delay, deter or prevent a takeover attempt that stockholders might consider in their best interests. For instance, such restrictions may prevent stockholders from receiving the benefit from any premium over the market price of MetLife, Inc.'s common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of MetLife, Inc.'s common stock if they are viewed as discouraging takeover attempts in the future.

Any person seeking to acquire a controlling interest in us would face various regulatory obstacles, including:

applicable state insurance laws and regulations may delay or impede a business combination involving us by prohibiting an entity from acquiring control (generally presumed to exist at direct or indirect ownership of 10% or more of voting stock) of an insurance company without the prior approval of the domestic insurance regulator.

Dodd-Frank provisions that could restrict or impede consolidations, mergers and acquisitions by systemically significant firms, which could apply to us if we are designated as a non-bank SIFI. See Business U.S. Regulation Potential Regulation as a Non-Bank SIFI Change of Control and Restrictions on Mergers and Acquisitions.

Provisions of the Investment Company Act of 1940, as amended, that require approval by the contract owners of our variable contracts in order to effectuate a change of control of any affiliated investment adviser to a mutual fund underlying our variable contracts.

FINRA approval requirements for a change of control of any FINRA registered broker-dealer that is a direct or indirect subsidiary of MetLife, Inc.

Provisions of the Delaware General Corporation Law may affect the ability of an interested stockholder (the owner of 15% or more of the outstanding voting stock of a corporation) to engage in certain business combinations for a period of three years following the time that the stockholder becomes an interested stockholder.

In addition, MetLife, Inc.'s certificate of incorporation and by-laws also contain provisions that may delay, deter or prevent a takeover attempt that stockholders might consider in their best interests or may otherwise adversely affect prevailing market prices for MetLife, Inc.'s common stock. These provisions include: a prohibition on the calling of special meetings by stockholders; advance notice procedures for the nomination of candidates to the Board of Directors and stockholder proposals to be considered at stockholder meetings; and supermajority voting requirements for the amendment of certain provisions of the certificate of incorporation and by-laws.

***The Continued Threat of Terrorism and Ongoing Military Actions May Adversely Affect the Value of Our Investment Portfolio and the Level of Claim Losses We Incur***

The continued threat of terrorism, both within the U.S. and abroad, ongoing military and other actions and heightened security measures in response to these types of threats may cause significant volatility in global financial markets and result in loss of life, property damage, additional disruptions to commerce and reduced economic activity. The value of assets in our investment portfolio may be adversely affected by declines in the credit and equity markets and reduced economic activity caused by the continued threat of terrorism. Companies in which we maintain investments may suffer losses as a result of financial, commercial or economic disruptions and such disruptions might affect the ability of those companies to pay interest or principal on their securities or mortgage loans. Terrorist actions also could disrupt our operations centers in the U.S. or abroad and higher than anticipated

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claims under our insurance policies. See Economic Environment and Capital Markets-Related Risks If Difficult Conditions in the Global Capital Markets and the Economy Generally Persist, They May Materially Adversely Affect Our Business and Results of Operations.

***The Failure in Cyber- or Other Information Security Systems, as well as the Occurrence of Events Unanticipated in Our Disaster Recovery Systems and Management Continuity Planning Could Result in a Loss or Disclosure of Confidential Information, Damage to Our Reputation and Impairment of Our Ability to Conduct Business Effectively***

Our business is highly dependent upon the effective operation of our computer systems. We rely on these systems throughout our business for a variety of functions, including processing claims and applications, providing information to customers and distributors, performing actuarial analyses and maintaining financial records. We also retain confidential and proprietary information on our computer systems and we rely on sophisticated technologies to maintain the security of that information. Our computer systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access, cyber-attacks or other computer-related penetrations. While, to date, MetLife has not experienced a material breach of cybersecurity, administrative and technical controls and other preventive actions we take to reduce the risk of cyber-incidents and protect our information technology may be insufficient to prevent physical and electronic break-ins, cyber-attacks or other security breaches to our computer systems.

In the event of a disaster such as a natural catastrophe, epidemic, industrial accident, blackout, computer virus, terrorist attack, cyberattack or war, unanticipated problems with our disaster recovery systems could have a material adverse impact on our ability to conduct business and on our results of operations and financial position, particularly if those problems affect our computer-based data processing, transmission, storage and retrieval systems and destroy valuable data. In addition, in the event that a significant number of our managers were unavailable following a disaster, our ability to effectively conduct business could be severely compromised. These interruptions also may interfere with our suppliers ability to provide goods and services and our employees ability to perform their job responsibilities.

The failure of our computer systems and/or our disaster recovery plans for any reason could cause significant interruptions in our operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to our customers. Such a failure could harm our reputation, subject us to regulatory sanctions and legal claims, lead to a loss of customers and revenues and otherwise adversely affect our business and financial results. While we maintain cyber liability insurance that provides both third-party liability and first party liability coverages, our insurance may not be sufficient to protect us against all losses.

***Our Associates May Take Excessive Risks Which Could Negatively Affect Our Financial Condition and Business***

As an insurance enterprise, we are in the business of accepting certain risks. The associates who conduct our business, including executive officers and other members of management, sales managers, investment professionals, product managers, sales agents, and other associates, do so in part by making decisions and choices that involve exposing us to risk. These include decisions such as setting underwriting guidelines and standards, product design and pricing, determining what assets to purchase for investment and when to sell them, which business opportunities to pursue, and other decisions. We endeavor, in the design and implementation of our compensation programs and practices, to avoid giving our associates incentives to take excessive risks; however, associates may take such risks regardless of the structure of our compensation programs and practices. Similarly, although we employ controls and procedures designed to monitor associates business decisions and prevent us from taking excessive risks, these controls and procedures may not be effective. If our associates take excessive risks, the impact of those risks could have a material adverse effect on our financial condition and business operations.

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### **Item 1B. Unresolved Staff Comments**

MetLife has no unresolved comments from the SEC staff regarding its periodic or current reports under the Exchange Act.

### **Item 2. Properties**

We lease 410,000 rentable square feet on 12 floors in an office building in Manhattan, New York, which is occupied by all of the Company's segments, as well as Corporate & Other. The term of that lease commenced during 2008 and continues for 21 years. In August 2009, we subleased 32,000 rentable square feet of that space to a subtenant, which has met our standards of review with respect to creditworthiness and we currently have approximately 33,000 rentable square feet of the 410,000 rentable square feet available for sublease. We moved certain operations from our Long Island City, New York facility, to the Manhattan space in late 2008, but continue to maintain an on-going presence in Long Island City. Our lease in Long Island City covers 686,000 rentable square feet, which is occupied by Corporate & Other, under a long-term lease arrangement that commenced during 2003 and continues for 20 years. With our occupancy and the subtenants we have secured, we are fully subscribed at the Long Island City location.

Our 200 Park Avenue property, which houses the Company's boardroom, is occupied by the Americas and Corporate & Other. We have retained rights to existing signage and are leasing space for associates in the property for 20 years with optional renewal periods through 2205.

We continue to own 15 other buildings in the U.S. that we use in the operation of our business. These buildings contain approximately four million rentable square feet and are located in the following states: Connecticut, Florida, Illinois, Missouri, New Jersey, New York, Ohio, Oklahoma, Pennsylvania and Rhode Island. Our computer center in Rensselaer, New York is not owned in fee but rather is occupied pursuant to a long-term ground lease. We lease space in 409 other locations throughout the U.S., and these leased facilities consist of 7 million rentable square feet. Approximately 75% of these leases are occupied as sales offices for the Company's U.S. business operations. The balance of space is utilized for corporate functions supporting business activities. We also own 68 properties outside the U.S., including 10 significant properties, as well as smaller facilities and condominium units. We lease approximately 1,100 sites in various locations outside the U.S. We believe that these properties are suitable and adequate for our current and anticipated business operations.

We arrange for property & casualty coverage on our properties, taking into consideration our risk exposures and the cost and availability of commercial coverages, including deductible loss levels. In connection with the renewal of those coverages, we have arranged \$700 million of property insurance, including coverage for terrorism, on our real estate portfolio through May 1, 2013, its renewal date.

### **Item 3. Legal Proceedings**

See Note 21 of the Notes to the Consolidated Financial Statements.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Table of Contents****Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Issuer Common Equity**

MetLife, Inc.'s common stock, par value \$0.01 per share, began trading on the NYSE under the symbol "MET" on April 5, 2000.

The following table presents high and low closing prices for the common stock on the NYSE for the periods indicated:

Common Stock Price	2012			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$ 39.46	\$ 38.00	\$ 36.25	\$ 37.11
Low	\$ 32.04	\$ 27.82	\$ 28.64	\$ 30.91

Common Stock Price	2011			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
High	\$ 48.63	\$ 46.79	\$ 44.38	\$ 36.82
Low	\$ 42.28	\$ 39.24	\$ 26.82	\$ 26.60

At February 19, 2013, there were 89,266 stockholders of record of common stock.

The table below presents dividend declaration, record and payment dates, as well as per share and aggregate dividend amounts, for the common stock:

Declaration Date	Record Date	Payment Date	Dividend Per Share Aggregate (In millions, except per share data)	
October 23, 2012	November 9, 2012	December 14, 2012	\$ 0.74	\$ 811
October 25, 2011	November 9, 2011	December 14, 2011	\$ 0.74	\$ 787

The declaration and payment of dividends is subject to the discretion of our Board of Directors, and will depend on MetLife, Inc.'s financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by MetLife, Inc.'s other insurance subsidiaries and other factors deemed relevant by the Board. The payment of dividends and other distributions by MetLife, Inc. to its security holders may be subject to the Federal Reserve if, in the future, MetLife, Inc. is designated as a non-bank SIFI. See "Business - U.S. Regulation - Potential Regulation as a Non-Bank SIFI." Also see Note 3 of the Notes to the Consolidated Financial Statements for information regarding MetLife, Inc.'s de-registration as a bank holding company. The payment of dividends is also subject to restrictions under the terms of our preferred stock and junior subordinated debentures in the event we are experiencing financial stress. See "Risk Factors - Capital-Related Risks We Have Been, and May Continue to be, Prevented from Repurchasing Our Stock and Paying Dividends at the Level We Wish as a Result of Regulatory Restrictions and Restrictions Under the Terms of Certain of Our Securities" and Note 16 of the Notes to the Consolidated Financial Statements. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - The Company - Liquidity and Capital Uses - Dividends" and Note 23 of the Notes to the Consolidated Financial Statements for further information regarding preferred and common stock dividends.

See Item 12 for information about our equity compensation plans.





**Table of Contents****Issuer Purchases of Equity Securities**

Purchases of common stock made by or on behalf of MetLife, Inc. or its affiliates during the quarter ended December 31, 2012 are set forth below:

<b>Period</b>	<b>(a) Total Number of Shares Purchased (1)</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2)</b>
October 1 - October 31, 2012	7,883	\$ 34.61		\$ 1,260,735,127
November 1 - November 30, 2012	1,079	\$ 34.12		\$ 1,260,735,127
December 1 - December 31, 2012	19,601	\$ 33.07		\$ 1,260,735,127

- (1) During the periods October 1 through October 31, 2012, November 1 through November 30, 2012 and December 1 through December 31, 2012, separate account and other affiliates of MetLife, Inc. purchased 7,883 shares, 1,079 shares and 19,601 shares, respectively, of common stock on the open market in nondiscretionary transactions to rebalance index funds. Except as disclosed above, there were no shares of common stock which were repurchased by the Company.
- (2) At December 31, 2012, MetLife, Inc. had \$1.3 billion remaining under its common stock repurchase program authorizations. In April 2008, MetLife, Inc.'s Board of Directors authorized an additional \$1.0 billion common stock repurchase program, which will begin after the completion of the January 2008 \$1.0 billion common stock repurchase program, of which \$261 million remained outstanding at December 31, 2012. Under these authorizations, MetLife, Inc. may purchase its common stock from the MetLife Policyholder Trust, in the open market (including pursuant to the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934) and in privately negotiated transactions. Any future common stock repurchases will be dependent upon several factors, including our capital position, liquidity, financial strength and credit ratings, general market conditions, the market price of MetLife, Inc.'s common stock compared to management's assessment of the stock's underlying value and applicable regulatory approvals, as well as other legal and accounting factors. See Risk Factors Capital-Related Risks We Have Been, and May Continue to be, Prevented from Repurchasing Our Stock and Paying Dividends at the Level We Wish as a Result of Regulatory Restrictions and Restrictions Under the Terms of Certain of Our Securities and Note 16 of the Notes to the Consolidated Financial Statements.

**Table of Contents****Item 6. Selected Financial Data**

The following selected financial data has been derived from the Company's audited consolidated financial statements. The statement of operations data for the years ended December 31, 2012, 2011 and 2010, and the balance sheet data at December 31, 2012 and 2011 have been derived from the Company's audited consolidated financial statements included elsewhere herein. The statement of operations data for the years ended December 31, 2009 and 2008, and the balance sheet data at December 31, 2010, 2009 and 2008 have been derived from the Company's audited consolidated financial statements not included herein. The selected financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and related notes included elsewhere herein.

	2012	Years Ended December 31,			2008
		2011	2010	2009	
		(In millions, except per share data)			
<b>Statement of Operations Data (1)</b>					
<b>Revenues</b>					
Premiums	\$ 37,975	\$ 36,361	\$ 27,071	\$ 26,157	\$ 25,604
Universal life and investment-type product policy fees	8,556	7,806	6,028	5,197	5,373
Net investment income	21,984	19,585	17,493	14,726	16,168
Other revenues	1,906	2,532	2,328	2,329	1,585
Net investment gains (losses)	(352)	(867)	(408)	(2,901)	(2,085)
Net derivative gains (losses)	(1,919)	4,824	(265)	(4,866)	3,910
<b>Total revenues</b>	<b>68,150</b>	<b>70,241</b>	<b>52,247</b>	<b>40,642</b>	<b>50,555</b>
<b>Expenses</b>					
Policyholder benefits and claims	37,987	35,471	29,187	28,005	27,095
Interest credited to policyholder account balances	7,729	5,603	4,919	4,845	4,787
Policyholder dividends	1,369	1,446	1,485	1,649	1,749
Goodwill impairment	1,868				
Other expenses	17,755	18,537	12,927	10,761	11,988
<b>Total expenses</b>	<b>66,708</b>	<b>61,057</b>	<b>48,518</b>	<b>45,260</b>	<b>45,619</b>
Income (loss) from continuing operations before provision for income tax	1,442	9,184	3,729	(4,618)	4,936
Provision for income tax expense (benefit)	128	2,793	1,110	(2,107)	1,542
Income (loss) from continuing operations, net of income tax	1,314	6,391	2,619	(2,511)	3,394
Income (loss) from discontinued operations, net of income tax	48	24	44	64	(179)
<b>Net income (loss)</b>	<b>1,362</b>	<b>6,415</b>	<b>2,663</b>	<b>(2,447)</b>	<b>3,215</b>
Less: Net income (loss) attributable to noncontrolling interests	38	(8)	(4)	(36)	66
<b>Net income (loss) attributable to MetLife, Inc.</b>	<b>1,324</b>	<b>6,423</b>	<b>2,667</b>	<b>(2,411)</b>	<b>3,149</b>
Less: Preferred stock dividends	122	122	122	122	125
Preferred stock redemption premium		146			
<b>Net income (loss) available to MetLife, Inc.'s common shareholders</b>	<b>\$ 1,202</b>	<b>\$ 6,155</b>	<b>\$ 2,545</b>	<b>\$ (2,533)</b>	<b>\$ 3,024</b>
<b>EPS Data (1), (5)</b>					
Income (loss) from continuing operations available to MetLife, Inc.'s common shareholders per common share:					
Basic	\$ 1.08	\$ 5.79	\$ 2.83	\$ (3.17)	\$ 4.48
Diluted	\$ 1.08	\$ 5.74	\$ 2.81	\$ (3.17)	\$ 4.43

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Income (loss) from discontinued operations per common share:										
Basic	\$	0.04	\$	0.02	\$	0.05	\$	0.08	\$	(0.37)
Diluted	\$	0.04	\$	0.02	\$	0.05	\$	0.08	\$	(0.37)
Net income (loss) available to MetLife, Inc.'s common shareholders per common share:										
Basic	\$	1.12	\$	5.81	\$	2.88	\$	(3.09)	\$	4.11
Diluted	\$	1.12	\$	5.76	\$	2.86	\$	(3.09)	\$	4.06
Cash dividends declared per common share	\$	0.74	\$	0.74	\$	0.74	\$	0.74	\$	0.74

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	2012	2011	December 31, 2010			2009	2008
			(In millions)				
<b>Balance Sheet Data (1)</b>							
Separate account assets	\$ 235,393	\$ 203,023	\$ 183,138	\$ 148,854	\$ 120,697		
Total assets (2)	\$ 836,781	\$ 796,226	\$ 728,249	\$ 537,531	\$ 499,794		
Policyholder liabilities and other policy-related balances (3)	\$ 438,191	\$ 421,267	\$ 399,135	\$ 281,495	\$ 280,351		
Short-term debt	\$ 100	\$ 686	\$ 306	\$ 912	\$ 2,659		
Long-term debt (2)	\$ 19,062	\$ 23,692	\$ 27,586	\$ 13,220	\$ 9,667		
Collateral financing arrangements	\$ 4,196	\$ 4,647	\$ 5,297	\$ 5,297	\$ 5,192		
Junior subordinated debt securities	\$ 3,192	\$ 3,192	\$ 3,191	\$ 3,191	\$ 3,758		
Separate account liabilities	\$ 235,393	\$ 203,023	\$ 183,138	\$ 148,854	\$ 120,697		
Accumulated other comprehensive income (loss)	\$ 11,397	\$ 6,083	\$ 1,145	\$ (3,049)	\$ (14,512)		
Total MetLife, Inc. s stockholders equity	\$ 64,453	\$ 57,519	\$ 46,853	\$ 31,336	\$ 21,846		
Noncontrolling interests	\$ 384	\$ 370	\$ 365	\$ 371	\$ 249		

	Years Ended December 31,				
	2012	2011	2010	2009	2008
<b>Other Data (1), (4)</b>					
Return on MetLife, Inc. s common equity	2.0 %	12.2 %	6.9 %	(9.9)%	10.9 %
Return on MetLife, Inc. s common equity, excluding accumulated other comprehensive income (loss)	2.4 %	13.2 %	7.0 %	(7.3)%	9.3 %

(1) On November 1, 2010, MetLife, Inc. acquired ALICO. The results of the ALICO Acquisition are reflected in the selected financial data from the ALICO Acquisition Date. See Note 3 of the Notes to the Consolidated Financial Statements.

(2) Total assets and long-term debt include amounts relating to variable interest entities as follows at:

	2012	December 31, 2011		2010
		(In millions)		
General account assets	\$ 6,692	\$ 7,273	\$ 11,080	
Long-term debt	\$ 2,527	\$ 3,068	\$ 6,902	

(3) Policyholder liabilities and other policy-related balances include future policy benefits, policyholder account balances, other policy-related balances, policyholder dividends payable and the policyholder dividend obligation.

(4) Return on MetLife, Inc. s common equity is defined as net income (loss) available to MetLife, Inc. s common shareholders divided by MetLife, Inc. s average common stockholders equity.

(5) For the years ended December 31, 2012 and 2010, all shares related to the assumed issuance of shares in settlement of the applicable purchase contracts have been excluded from the calculation of diluted earnings per common share as these assumed shares are anti-dilutive. For the year ended December 31, 2009, shares related to the assumed exercise or issuance of stock-based awards have been excluded from the calculation of diluted earnings per common share, as to include such assumed shares would be anti-dilutive.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Index to Management's Discussion and Analysis of Financial Condition and Results of Operations**

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### **Forward-Looking Statements and Other Financial Information**

For purposes of this discussion, MetLife, the Company, we, our and us refer to MetLife, Inc., a Delaware corporation incorporated in 199 subsidiaries and affiliates. Following this summary is a discussion addressing the consolidated results of operations and financial condition of the Company for the periods indicated. This discussion should be read in conjunction with Note Regarding Forward-Looking Statements, Risk Factors, Selected Financial Data and the Company's consolidated financial statements included elsewhere herein.

This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain or incorporate by reference information that includes or is based upon forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements give expectations or forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe and other terms of similar meaning in connection with a discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results. Any or all forward-looking statements may turn out to be wrong. Actual results could differ materially from those expressed or implied in the forward-looking statements. See Note Regarding Forward-Looking Statements.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes references to our performance measures, operating earnings and operating earnings available to common shareholders, that are not based on accounting principles generally accepted in the United States of America ( GAAP ). Operating earnings is the measure of segment profit or loss we use to evaluate segment performance and allocate resources. Consistent with GAAP accounting guidance for segment reporting, operating earnings is our measure of segment performance. Operating earnings is also a measure by which senior management's and many other employees' performance is evaluated for the purposes of determining their compensation under applicable compensation plans. See Non-GAAP and Other Financial Disclosures for definitions of such measures.

### **Executive Summary**

MetLife is a leading global provider of insurance, annuities and employee benefit programs throughout the United States, Japan, Latin America, Asia, Europe and the Middle East. Through its subsidiaries and affiliates, MetLife offers life insurance, annuities, property & casualty insurance, and other financial services to individuals, as well as group insurance and retirement & savings products and services to corporations and other institutions.

MetLife is organized into six segments, reflecting three broad geographic regions: Retail; Group, Voluntary & Worksite Benefits; Corporate Benefit Funding; and Latin America (collectively, the Americas ); Asia; and Europe, the Middle East and Africa ( EMEA ). In addition, the Company reports certain of its results of operations in Corporate & Other, which includes MetLife Bank, National Association ( MetLife Bank ) (see Note 3 of the Notes to the Consolidated Financial Statements for information regarding MetLife Bank's exit from certain of its businesses (the MetLife Bank Divestiture )) and other business activities. Management continues to evaluate the Company's segment performance and allocated resources and may adjust related measurements in the future to better reflect segment profitability.

On November 1, 2010 (the ALICO Acquisition Date ), MetLife, Inc. completed the acquisition of American Life Insurance Company ( American Life ) from AM Holdings LLC (formerly known as ALICO Holdings LLC) ( AM Holdings ), a subsidiary of American International Group, Inc. ( AIG ), and Delaware American Life Insurance Company ( DelAm ) from AIG (American Life, together with DelAm, collectively, ALICO ) (the ALICO Acquisition ). The assets, liabilities and operating results relating to the ALICO Acquisition are

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included in the Latin America, Asia and EMEA segments. See Note 3 of the Notes to the Consolidated Financial Statements.

Certain international subsidiaries have a fiscal year-end of November 30. Accordingly, the Company's consolidated financial statements reflect the assets and liabilities of such subsidiaries as of November 30, 2012 and 2011 and the operating results of such subsidiaries for the years ended November 30, 2012, 2011 and 2010.

We continue to experience an increase in sales in several of our businesses; however, global economic conditions continue to negatively impact the demand for some of our products. Portfolio growth, resulting from strong sales in the majority of our businesses, drove positive investment results and higher asset-based fee revenue. Changes in interest rates and the impact of the nonperformance risk adjustment on variable annuity embedded derivatives resulted in significant derivative losses. In addition, a goodwill impairment charge was recorded in the current year, as well as a charge associated with the global review of assumptions related to deferred policy acquisition costs ( DAC ), reserves and certain intangibles.

	Years Ended December 31,		
	2012	2011	2010
	(In millions)		
Income (loss) from continuing operations, net of income tax	\$ 1,314	\$ 6,391	\$ 2,619
Less: Net investment gains (losses)	(352)	(867)	(408)
Less: Net derivative gains (losses)	(1,919)	4,824	(265)
Less: Goodwill impairment	(1,868)		
Less: Other adjustments to continuing operations (1)	(2,550)	(1,451)	(708)
Less: Provision for income tax (expense) benefit	2,195	(914)	304
<b>Operating earnings</b>	<b>5,808</b>	<b>4,799</b>	<b>3,696</b>
Less: Preferred stock dividends	122	122	122
<b>Operating earnings available to common shareholders</b>	<b>\$ 5,686</b>	<b>\$ 4,677</b>	<b>\$ 3,574</b>

(1) See definitions of operating revenues and operating expenses for the components of such adjustments.

**Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011**

During the year ended December 31, 2012, income (loss) from continuing operations, net of income tax, decreased \$5.1 billion from the prior year. The change was predominantly due to a \$6.7 billion (\$4.4 billion, net of income tax), unfavorable change in net derivative gains (losses) primarily driven by changes in interest rates, the weakening of the U.S. dollar and Japanese yen, equity market movements, decreased volatility and the impact of a nonperformance risk adjustment. In addition, the current year includes a \$1.9 billion (\$1.6 billion, net of income tax) non-cash charge for goodwill impairment associated with our U.S. retail annuities business. The current year also includes a \$1.2 billion (\$752 million, net of income tax) charge associated with the global review of assumptions related to DAC, reserves and certain intangibles, of which \$526 million (\$342 million, net of income tax) was reflected in net derivative gains (losses). Also included in income (loss) from continuing operations, net of income tax, were the unfavorable results of the discontinued operations and other businesses that have been or will be sold or exited by MetLife, Inc. ( Divested Businesses ), which decreased \$724 million (\$476 million, net of income tax) from the prior year. These declines were partially offset by a \$1.0 billion, net of income tax, increase in operating earnings available to common shareholders.

The increase in operating earnings available to common shareholders was primarily driven by improved investment results and higher asset-based fee revenue as strong sales levels drove portfolio growth. In addition, the low interest rate environment resulted in lower average interest credited rates. Despite the impact of Superstorm Sandy, catastrophe losses were lower in 2012 as compared to the significant weather-related claims in 2011. In addition, the prior year included a \$117 million, net of income tax, charge in connection with the Company's use of the U.S. Social Security Administration's Death Master File. The prior year also included





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\$40 million, net of income tax, of expenses incurred related to a liquidation plan filed by the New York State Department of Financial Services (the Department of Financial Services ) for Executive Life Insurance Company of New York ( ELNY ). Current year results include a \$52 million, net of income tax, charge representing a multi-state examination payment related to unclaimed property and MetLife's use of the U.S. Social Security Administration's Death Master File to identify potential life insurance claims, as well as the expected acceleration of benefit payments to policyholders under the settlements. The current year also includes a \$50 million, net of income tax, impairment charge on an intangible asset related to a previously acquired dental business.

***Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010***

During the year ended December 31, 2011, income (loss) from continuing operations, net of income tax, increased \$3.8 billion over 2010. The change was predominantly due to a \$5.1 billion (\$3.3 billion, net of income tax) favorable change in net derivative gains (losses) primarily due to the impact of falling long-term and mid-term interest rates and equity market movements and volatility. In addition, a \$1.1 billion, net of income tax, favorable change in operating earnings available to common shareholders, which includes the impact of the ALICO Acquisition, also contributed to the increase.

The ALICO Acquisition drove the majority of the \$1.1 billion increase in operating earnings available to common shareholders. In addition, improved investment performance was driven by portfolio growth resulting from increased sales across many of our businesses, which more than offset the negative impact of the declining interest rate environment on yields. Current year results were negatively impacted by severe weather, as well as, in the third quarter of 2011, a charge to increase reserves in connection with the Company's use of the U.S. Social Security Administration's Death Master File and similar databases to identify potential life insurance claims that have not been presented to the Company and expenses incurred related to a liquidation plan filed by the Department of Financial Services for ELNY.

***Consolidated Company Outlook***

In 2013, despite pressure from low interest rates, we expect operating earnings to be in line with 2012, driven primarily by the following:

Growth in premiums, fees and other revenues driven by:

Rational pricing strategy in the group insurance marketplace;

Increases in our businesses outside of the U.S., notably accident & health, from continuing organic growth throughout our various geographic regions and leveraging of our multichannel distribution network.

Expanding our presence in emerging markets, including potential merger and acquisition activity.

Focus on disciplined underwriting. We see no significant changes to the underlying trends that drive underwriting results; however, unanticipated catastrophes, similar to Superstorm Sandy could result in a high volume of claims.

Focus on expense management in the light of the low interest rate environment, and continue to focus on expense control throughout the Company.

Continued disciplined approach to investing and asset/liability management ( ALM ), including significant hedging to protect against low interest rates and the purchasing of derivatives to protect against higher interest rates.

We expect only modest investment losses in 2013, but more difficult to predict is the impact of potential changes in fair value of freestanding and embedded derivatives as even relatively small movements in market variables, including interest rates, equity levels and volatility, can have a large impact on the fair value of



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derivatives and net derivative gains (losses). Additionally, changes in fair value of embedded derivatives within certain insurance liabilities may have a material impact on net derivative gains (losses) related to the inclusion of a nonperformance risk adjustment.

As part of an enterprise-wide strategic initiative, by 2016, we expect to increase our operating return on common equity to the low end of the 12% to 14% range, driven by higher operating earnings. If we were to assume no share buybacks through year-end 2016, our estimated operating return on equity target range for 2016 would be approximately 100 basis points lower than this previously noted range, all other assumptions held constant. We will leverage our scale to improve the value we provide to customers and shareholders in order to achieve \$1 billion in efficiencies, \$600 million of which is expected to be related to net pre-tax expense savings, and \$400 million of which we expect to be reinvested in our technology, platforms and functionality to improve our current operations and develop new capabilities. Additionally, we will shift our product mix toward protection products and away from more capital-intensive products, in order to generate more predictable operating earnings and cash flows, and improve our risk profile and free cash flow. We expect that by 2016, more than 20% of our operating earnings will come from emerging markets.

### ***Impact of Superstorm Sandy***

On October 29, 2012, Superstorm Sandy made landfall in the Northeastern United States causing extensive property damage. MetLife's property & casualty business gross losses from Superstorm Sandy were approximately \$150 million, before income tax. As of December 31, 2012, we recognized total net losses related to the catastrophe of \$90 million, net of income tax and reinsurance recoverables and including reinstatement premiums, which impacted the Retail and Group, Voluntary & Worksite Benefits segments. The Retail and Group, Voluntary & Worksite Benefits segments recorded net losses related to the catastrophe of \$49 million and \$41 million, each net of income tax reinsurance recoverables and reinstatement premiums, respectively.

Additional storm-related losses may be recorded in future periods as claims are received from insureds and claims to reinsurers are processed. Reinsurance recoveries are dependent on the continued creditworthiness of the reinsurers, which may be affected by their other reinsured losses in connection with Superstorm Sandy and otherwise.

### **Industry Trends**

We continue to be impacted by the unstable global financial and economic environment that has been affecting the industry.

### ***Financial and Economic Environment***

Our business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in global capital markets, particular markets, or financial asset classes can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities are sensitive to changing market factors. Global market factors, including interest rates, credit spreads, equity prices, real estate markets, foreign currency exchange rates, consumer spending, business investment, government spending, the volatility and strength of the capital markets, deflation and inflation, all affect the business and economic environment and, ultimately, the amount and profitability of our business. Disruptions in one market or asset class can also spread to other markets or asset classes. Upheavals in the financial markets can also affect our business through their effects on general levels of economic activity, employment and customer behavior. While our diversified business mix and geographically diverse business operations partially mitigate these risks, correlation across regions, countries and global market factors may reduce the benefits of diversification.

Financial markets have also been affected by concerns over U.S. fiscal policy. While uncertainty regarding the fiscal cliff (a series of tax increases and automatic government spending cuts that would have become effective at the beginning of 2013) has been abated following a last minute Congressional compromise on January 1,

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questions over the direction of U.S. fiscal policy remain as a result of further Congressional action that will be needed to again raise the U.S. federal government's debt ceiling by August 2013. Unless steps are taken to raise the debt ceiling and reduce the federal deficit, rating agencies have warned of the possibility of future downgrades of U.S. Treasury securities. These issues could, on their own, or combined with the slowing of the global economy generally, send the U.S. into a new recession, have severe repercussions to the U.S. and global credit and financial markets, further exacerbate concerns over sovereign debt of other countries and disrupt economic activity in the U.S. and elsewhere.

In September 2012, Moody's Investors Service (Moody's) changed its outlook for the U.S. life insurance industry to negative from stable, saying it expects interest rates to remain in the low single digits for the next few years, depressing such companies' earnings. In June 2012, Moody's announced that it downgraded the long-term ratings and standalone credit for a number of banks and securities firms with global capital markets operations. Through our ongoing credit evaluation process, we have been closely monitoring our financial institution investment holdings, including the impact of the Moody's downgrades to these institutions, and do not expect these downgrades to have a material adverse effect on our business, results of operations and financial condition.

Concerns about economic conditions, capital markets and the solvency of certain European Union member states, including Portugal, Ireland, Italy, Greece and Spain (Europe's perimeter region) and Cyprus, and of financial institutions that have significant direct or indirect exposure to debt issued by these countries, have been a cause of elevated levels of market volatility. See Investments Current Environment for information regarding credit ratings downgrades, support programs for Europe's perimeter region and our exposure to obligations of European governments and private obligors. The financial markets have also been affected by concerns that other European Union member states could experience similar financial troubles, that some countries could default on their obligations, have to restructure their outstanding debt, or be unable or unwilling to comply with the terms of any aid provided to them, that financial institutions with significant holdings of sovereign or private debt issued by borrowers in Europe's perimeter region could experience financial stress, or that one or more countries may exit the Euro zone, any of which could have significant adverse effects on the European and global economies and on financial markets, generally. In September 2012, the European Central Bank (ECB) announced a new bond buying program, Outright Monetary Transactions, intended to stabilize the European financial crisis and help certain countries struggling with their levels of sovereign debt. This program involves the purchase by the ECB of unlimited quantities of short-term sovereign bonds, with maturities of one to three years. These large scale purchases of short-term sovereign bonds are intended to increase the price of the bonds, and lower their interest rates, making it less expensive for certain countries to borrow money. As a condition to participating in this program, countries must agree to strict levels of economic reform and oversight. See Risk Factors Economic Environment and Capital Markets-Related Risks We Are Exposed to Significant Financial and Capital Markets Risk Which May Adversely Affect Our Results of Operations, Financial Condition and Liquidity, and May Cause Our Net Investment Income to Vary from Period to Period.

The Japanese economy, to which we face substantial exposure given our operations there, has experienced weak economic performance for over two decades and a long period of deflation, which have led to a deterioration in public finances. The global financial crisis and March 2011 earthquake further pressured Japan's budget outcomes and public debt levels. Going forward, Japan's structural and demographic challenges may continue to limit its potential growth unless reforms that boost productivity are put into place. Japan's high public sector debt levels are mitigated by low refinancing risks and its nominal yields on government debt have remained at a lower level than that of any other advanced country. However, frequent changes in government have prevented policy makers from implementing fiscal reform measures to put public finances on a sustainable path. In January 2013, the government and the Bank of Japan pledged to strengthen policy coordination to end deflation and to achieve sustainable economic growth. This was followed by the announcement of a supplementary budget stimulus program totaling 2% of gross domestic product and the adoption of a 2% inflation target by the Bank of Japan. Although the yen has weakened and the stock market has rallied on the back of these announcements, it is too soon to tell whether these actions will have a sustained impact on Japan's economy. Japan's public debt trajectory could continue to rise until a strategy to boost longer term growth is implemented.

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***Impact of a Sustained Low Interest Rate Environment***

As a global insurance company, we are affected by the monetary policy of central banks around the world. In the United States, the Board of Governors of the Federal Reserve System (the Federal Reserve Board) has taken a number of actions in recent years to spur economic activity by keeping interest rates low and may take further actions to influence interest rates in the future, which may have an impact on the pricing levels of risk-bearing investments, and may adversely impact the level of product sales.

In December 2012, the Federal Reserve Board's Federal Open Market Committee (FOMC) reiterated its plan to keep interest rates low until such time as certain numerical thresholds are met, including with respect to the rates of unemployment, inflation and long-term inflation. It also announced that it will continue purchasing agency mortgage-backed securities at a pace of \$40 billion per month and will purchase longer-term U.S. Treasury securities at a pace of \$45 billion per month. Taken together, these actions are intended to maintain downward pressure on longer-term interest rates, support mortgage markets, and contribute to a broad easing of financial market conditions that could provide additional stimulus to support the economic recovery. Based on the FOMC's January 2013 meeting, however, it is possible that the extent of this quantitative easing could be varied in amount, gradually reduced, or even ended earlier than originally anticipated depending on the pace of economic recovery, including substantial improvement in the outlook for the labor market.

Central banks in other parts of the world, including the ECB, the Bank of England, the Bank of Japan, the Bank of Australia, the Central Bank of Brazil and the Central Bank of China, have followed the recent actions of the Federal Reserve Board to lower interest rates. The collective effort globally to lower interest rates was in response to concerns about Europe's sovereign debt crisis and slowing global economic growth. We cannot predict with certainty the effect of these programs and policies on interest rates or the impact on the pricing levels of risk-bearing investments at this time. See Investments Current Environment.

In periods of declining interest rates, we may have to invest insurance cash flows and reinvest the cash flows we received as interest or return of principal on our investments in lower yielding instruments. Moreover, borrowers may prepay or redeem the fixed income securities, commercial or agricultural mortgage loans and mortgage-backed securities in our investment portfolio with greater frequency in order to borrow at lower market rates. Therefore, some of our products expose us to the risk that a reduction in interest rates will reduce the difference between the amounts that we are required to credit on contracts in our general account and the rate of return we are able to earn on investments intended to support obligations under these contracts. This difference between interest earned and interest credited, or margin, is a key metric for the management of, and reporting for, many of our businesses.

Our expectations regarding future margins are an important component impacting the amortization of certain intangible assets such as DAC and value of business acquired (VOBA). Significantly lower margins may cause us to accelerate the amortization, thereby reducing net income in the affected reporting period. Additionally, lower margins may also impact the recoverability of intangible assets such as goodwill, require the establishment of additional liabilities or trigger loss recognition events on certain policyholder liabilities. We review this long-term margin assumption, along with other assumptions, as part of our annual assumption review. Although the analysis shown below considers low interest rates in 2013 and 2014, it does not assume any change to our long-term assumption for margins. As a result, the impact of a hypothetical interest rate stress scenario described below does not capture the impact of any of the aforementioned items.

*Mitigating Actions.* The Company has been and continues to be proactive in its investment strategies, product designs, and interest crediting rate strategies to mitigate the risk of unfavorable consequences from the low interest rate environment. Lowering interest crediting rates on some products, or adjusting the dividend scale on traditional products, can help offset decreases in investment margins on some products. Our ability to lower interest crediting rates could be limited by competition, regulatory approval, or contractual guarantees of minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our margins could decrease or potentially become negative. The Company applies disciplined ALM strategies, including the

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use of derivatives, primarily interest rate swaps, floors and swaptions, to mitigate the risk of sustained low interest rates in the U.S. A significant portion of these derivatives were entered into prior to the onset of the current low U.S. interest rate environment. In some cases, the Company has entered into offsetting positions as part of its overall ALM strategy and to reduce volatility in net income. Business actions, such as shifting the sales focus to less interest rate sensitive products, can also mitigate this risk. In addition, the Company is well diversified across product, distribution, and geography. Certain of our non-U.S. businesses, reported within our Latin America and EMEA segments, which accounted for approximately 15% of our operating earnings in 2012, are not significantly interest rate or market sensitive, particularly to any direct sensitivity to U.S. rates. The Company's primary exposure within these segments is insurance risk. We expect our non-U.S. businesses to grow faster than our U.S. businesses and, over time, to become a larger percentage of our total business. As a result of the foregoing, the Company expects to be able to substantially mitigate the negative impact of a sustained low interest rate environment in the U.S. on the Company's profitability. Based on a near to intermediate term analysis of a sustained lower interest rate environment in the U.S., the Company anticipates operating earnings will continue to increase, although at a slower growth rate.

***Interest Rate Stress Scenario***

The following summarizes the impact of a hypothetical interest rate stress scenario on our operating earnings and the mark-to-market impact of our derivative positions that do not qualify as accounting hedges assuming a continued low interest rate environment in the U.S.

The hypothetical interest rate stress scenario is based on a constant set of U.S. interest rates and credit spreads in the U.S., as compared to our business plan interest rates and credit spreads, which are based on consensus interest rate view and credit spreads as of October 31, 2012. For example, our business plan assumes a 10-year treasury rate of 1.69% at December 31, 2012 to rise during 2013 to 2.38% by December 31, 2013 and remain at 2.38% until December 31, 2014. The hypothetical interest rate stress scenario assumes the 10-year treasury rate to be 1.69% at December 31, 2012 and remain constant at that level until December 31, 2014. We make similar assumptions for interest rates at other maturities, and hold this interest rate curve constant through December 31, 2014. In addition, in the interest rate stress scenario, we assume credit spreads remain constant from December 2012 through the end of 2014, as compared to our business plan which assumes rising credit spreads through 2013 and thereafter remaining constant through the end of 2014. Further, we also are including the impact of low interest rates on our pension and post-retirement plan expenses. We allocate this impact across our segments; it is included in the segment discussion below. The discount rate used to value these plans is tied to long-term high quality corporate bond yields. Accordingly, an extended low interest rate environment will result in increased pension and other post-retirement benefit liabilities and expenses. Higher total return on the fixed income portfolio of pension and other post-retirement benefit plan assets will partially offset this increase in pension and other post-retirement plan liabilities.

Based on the above assumptions, we estimate the impact of the hypothetical U.S. interest rate stress scenario on our consolidated operating earnings to be a decrease of approximately \$45 million and \$150 million in 2013 and 2014, respectively.

As previously mentioned, operating earnings is the measure of segment profit and loss that we use to evaluate segment performance and allocated resources. Further, we believe the presentation of operating earnings and operating earnings available to common shareholders as we measure it for management purposes enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of our business. The most directly comparable GAAP measure is not accessible on a forward-looking basis because we believe it is not possible to provide other than a range of net investment gains and losses and net derivative gains and losses, which can fluctuate significantly within or outside the range from period to period and may have a significant impact on GAAP net income. See [Non-GAAP and Other Financial Disclosures](#) for definitions of such measures.

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In addition to the impact on operating earnings, we estimated the effect on the mark-to-market impact of our derivative positions that do not qualify as accounting hedges. We applied the hypothetical U.S. interest rate stress scenario to these derivatives and compared the impact to that based on rates in our business plan. We hold a significant position in long duration receive-fixed interest rate swaps to hedge reinvestment risk. These swaps are most sensitive to the 30-year and 10-year swap rates and we recognize gains as rates drop and recognize losses as rates rise. This estimated impact on the derivative mark-to-market does not include that of our VA program derivatives as the impact of low interest rates in the freestanding derivatives would be largely offset by the mark-to-market in earnings for the related embedded derivative. See [Results of Operations](#) [Consolidated Results](#) for discussions on our net derivative gains and losses.

Based on these additional assumptions, we estimate the impact of the hypothetical U.S. interest rate stress scenario on the mark-to-market of our derivative positions that do not qualify as accounting hedges to be an increase in income of \$450 million to \$850 million and a decrease in income of \$200 million to an increase in income of \$200 million in 2013 and 2014, respectively.

*Segments and Corporate & Other*

The following discussion summarizes the impact of the above hypothetical U.S. interest rate stress scenario on the operating earnings of our segments, as well as Corporate & Other. See also [Policyholder Liabilities](#) [Policyholder Account Balances](#) for information regarding the account values subject to minimum guaranteed credited rates.

*Retail*

**Life & Other** Our interest rate sensitive products include traditional life, universal life, and retained asset accounts. Because the majority of our traditional life insurance business is participating, we can largely offset lower investment returns on assets backing our traditional life products through adjustments to the applicable dividend scale. In our universal life products, we manage interest rate risk through a combination of product design features and ALM strategies, including the use of hedges such as interest rate swaps and floors. While the Company has the ability to lower crediting rates on certain in-force universal life policies to mitigate margin compression, such actions would be partially offset by increases in our liabilities related to those with secondary guarantees. Our retained asset accounts have minimum interest crediting rate guarantees which range from 1.5% to 3.0%, all of which are currently at their respective minimum interest crediting rates. While we expect to experience margin compression as we re-invest at lower rates, interest rate floors purchased in this portfolio will partially mitigate this risk.

**Annuities** The impact on operating earnings from margin compression is concentrated in our deferred annuities where there are minimum interest rate guarantees. Under low U.S. interest rate scenarios, we assume that a larger percentage of customers will maintain their funds with the Company to take advantage of the attractive minimum guaranteed rates and we expect to experience margin compression as we reinvest cash flows at lower interest rates. Partially offsetting this margin compression, we assume we will lower crediting rates on their contractual reset dates for the portion of business that is not currently at minimum crediting rates. Additionally, we have various derivative positions, primarily interest rate floors, to partially mitigate this risk. Reinvestment risk is defined here as the amount of reinvestment in 2013 and 2014 that would impact operating earnings due to reinvesting cash flows in the hypothetical interest rate stress scenario. For the deferred annuities business, \$1.3 billion and \$2.3 billion in 2013 and 2014, respectively of the asset base will be subject to reinvestment risk on an average asset base of \$37.6 billion and \$37.2 billion in 2013 and 2014, respectively.

We estimate an unfavorable operating earnings impact in our Retail segment from the hypothetical U.S. interest rate stress scenario noted above of \$15 million and \$60 million in 2013 and 2014, respectively.



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*Group, Voluntary & Worksite Benefits*

**Group** In general, most of our group life insurance products in this segment are renewable term insurance and, therefore, have significant repricing flexibility. Interest rate risk mainly arises from minimum interest rate guarantees on retained asset accounts. These accounts have minimum interest crediting rate guarantees which range from 0.5% to 3.0%. All of these account balances are currently at their respective minimum interest crediting rates and we expect to experience margin compression as we reinvest at lower interest rates. We have used interest rate floors to partially mitigate the risks of a sustained U.S. low interest rate environment. We also have exposure to interest rate risk in this business arising from our group disability policy claim reserves. For these products, lower reinvestment rates cannot be offset by a reduction in liability crediting rates for established claim reserves. Group disability policies are generally renewable term policies. Rates may be adjusted on in-force policies at renewal based on the retrospective experience rating and current interest rate assumptions. We review the discount rate assumptions and other assumptions associated with our long-term disability claim reserves no less frequently than annually. Our most recent review at the end of 2012 resulted in no change to the applicable discount rates.

**Voluntary & Worksite** We have exposure to interest rate risk in this business arising mainly from our long-term care ( LTC ) policy reserves. For these products, lower reinvestment rates cannot be offset by a reduction in liability crediting rates for established claim reserves. LTC policies are generally guaranteed renewable, and rates may be adjusted on a class basis with regulatory approval to reflect emerging experience. Our LTC block is closed to new business. The Company makes use of derivative instruments to more closely match asset and liability duration and immunize the portfolio against changes in interest rates. Reinvestment risk is defined here as the amount of reinvestment in 2013 and 2014 that would impact operating earnings due to reinvesting cash flows in the hypothetical interest rate stress scenario. For the LTC portfolio, \$0.9 billion of the asset base in both 2013 and 2014 will be subject to reinvestment risk on an average asset base of \$8.0 billion and \$8.7 billion in 2013 and 2014, respectively.

We estimate an unfavorable operating earnings impact in our Group, Voluntary & Worksite Benefits segment from the hypothetical U.S. interest rate stress scenario noted above of \$5 million and \$20 million in 2013 and 2014, respectively.

*Corporate Benefit Funding*

This segment contains both short and long duration products consisting of capital market products, pension closeouts, structured settlements, and other benefit funding products. The majority of short duration products are managed on a floating rate basis, which mitigates the impact of the low interest rate environment in the U.S. The long duration products have very predictable cash flows and we have matched these cash flows through our ALM practices. We also use interest rate swaps to help protect income in this segment against a low interest rate environment in the U.S. Based on the cash flow estimates, only a small component is subject to reinvestment risk. Reinvestment risk is defined here as the amount of reinvestment in 2013 and 2014 that would impact operating earnings due to reinvesting cash flows in the hypothetical interest rate stress scenario. For the long duration business, \$0 and \$0.4 billion of the asset base in 2013 and 2014, respectively, will be subject to reinvestment risk on an average asset base of \$46.3 billion and \$46.2 billion in 2013 and 2014, respectively.

We estimate an unfavorable operating earnings impact in our Corporate Benefit Funding segment from the hypothetical U.S. interest rate stress scenario noted above of \$0 and \$10 million in 2013 and 2014, respectively.

*Asia*

Our Asia segment has a portion of its investments in U.S. dollar denominated assets. The following represents the impact on our Asia segment's operating earnings under the hypothetical U.S. interest rate stress scenario.

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**Life & Other** Our Japan business offers traditional life insurance and accident & health products. To the extent the Japan life insurance portfolio is U.S. interest rate sensitive and we are unable to lower crediting rates to the customer, operating earnings will decline. We manage interest rate risk on our life products through a combination of product design features and ALM strategies.

**Annuities** We sell annuities in Asia which are predominantly single premium products with crediting rates set at the time of issue. This allows us to tightly manage product ALM, cash flows and net spreads, thus maintaining profitability.

We estimate an unfavorable operating earnings impact in our Asia segment from the hypothetical U.S. interest rate stress scenario noted above of \$10 million and \$20 million in 2013 and 2014, respectively.

### *Corporate & Other*

Corporate & Other contains the surplus portfolios for the enterprise, as well as the portfolios used to fund the capital needs of the Company. In addition, there are various reinsurance products. The surplus portfolios are subject to reinvestment risk; however lower net investment income is significantly offset by lower interest expense on both fixed and variable rate debt. Under a lower interest rate environment, fixed rate debt is assumed to be either paid off when it matures or refinanced at a lower interest rate resulting in lower overall interest expense. Variable rate debt is indexed to the three-month LIBOR, which results in lower interest expense incurred.

We estimate an unfavorable operating earnings impact in Corporate & Other from the hypothetical U.S. interest rate stress scenario noted above of \$15 million and \$40 million in 2013 and 2014, respectively.

### *Competitive Pressures*

The life insurance industry remains highly competitive. The product development and product life-cycles have shortened in many product segments, leading to more intense competition with respect to product features. Larger companies have the ability to invest in brand equity, product development, technology and risk management, which are among the fundamentals for sustained profitable growth in the life insurance industry. In addition, several of the industry's products can be quite homogeneous and subject to intense price competition. Sufficient scale, financial strength and financial flexibility are becoming prerequisites for sustainable growth in the life insurance industry. Larger market participants tend to have the capacity to invest in additional distribution capability and the information technology needed to offer the superior customer service demanded by an increasingly sophisticated industry client base. We believe that the continued volatility of the financial markets, its impact on the capital position of many competitors, and subsequent actions by regulators and rating agencies have altered the competitive environment. In particular, we believe that these factors have highlighted financial strength as the most significant differentiator from the perspective of some customers and certain distributors. We believe the Company is well positioned to compete in this environment. See **Business Competition**.

### *Regulatory Developments*

The U.S. life insurance industry is regulated primarily at the state level, with some products and services also subject to Federal regulation. As life insurers introduce new and often more complex products, regulators refine capital requirements and introduce new reserving standards for the life insurance industry. Regulations recently adopted or currently under review can potentially impact the statutory reserve and capital requirements of the industry. In addition, regulators have undertaken market and sales practices reviews of several markets or products, including equity-indexed annuities, variable annuities and group products, as well as reviews of the utilization of affiliated captive reinsurers or off-shore entities to reinsure insurance risks. The regulation of the global financial services industry has received renewed scrutiny as a result of the disruptions in the financial markets. Significant regulatory reforms have been recently adopted and additional reforms proposed, and these or

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other reforms could be implemented. See [Business](#) [U.S. Regulation](#), [Business](#) [International Regulation](#), [Risk Factors](#) [Regulatory and Legal Risks](#) [Our Insurance and Brokerage Businesses Are Highly Regulated, and Changes in Regulation and in Supervisory and Enforcement Policies May Reduce Our Profitability and Limit Our Growth](#), [Risk Factors](#) [Risks Related to Our Business](#) [Our Statutory Life Insurance Reserve Financings May Be Subject to Cost Increases and New Financings May Be Subject to Limited Market Capacity](#), and [Risk Factors](#) [Regulatory and Legal Risks](#) [Changes in U.S. Federal and State Securities Laws and Regulations, and State Insurance Regulations Regarding Suitability of Annuity Product Sales, May Affect Our Operations and Our Profitability](#).

The Dodd-Frank Wall Street Reform and Consumer Protection Act ( [Dodd-Frank](#) ), which was signed by President Obama in July 2010, effected the most far-reaching overhaul of financial regulation in the U.S. in decades. The full impact of Dodd-Frank on us will depend on the numerous rulemaking initiatives required or permitted by Dodd-Frank which are in various stages of implementation, many of which are not likely to be completed for some time. See [Business](#) [U.S. Regulation](#).

***Mortgage and Foreclosure-Related Exposures***

Since 2008, MetLife, through its affiliate, MetLife Bank, has been engaged in the origination, sale and servicing of forward and reverse residential mortgage loans. In January 2012, MetLife, Inc. announced that it was exiting the business of originating forward residential mortgage loans. In April 2012, MetLife, Inc. announced it was exiting the businesses of originating and servicing reverse residential mortgage loans and that MetLife Bank and MetLife, Inc. entered into a definitive agreement to sell MetLife Bank's reverse mortgage servicing portfolio. In June 2012, the Company sold the majority of MetLife Bank's reverse mortgage servicing rights and related assets and liabilities, with the remainder sold in September 2012 pursuant to the same sales agreement. On November 2, 2012, MetLife Bank and MetLife, Inc. entered into a definitive agreement to sell MetLife Bank's forward mortgage servicing portfolio to JPMorgan Chase Bank, N.A. ( [JPMorgan Chase](#) ). The rights and obligations of the forward mortgage servicing portfolio were assumed by JPMorgan Chase on December 31, 2012. See Note 3 of the Notes to the Consolidated Financial Statements for information regarding the MetLife Bank Divestiture.

In conjunction with the sales of residential mortgage loans and servicing portfolios, MetLife Bank has made representations and warranties that the loans sold met certain requirements (relating, for example, to the underwriting and origination of the loans), and that the loans were serviced in accordance with investor guidelines. Notwithstanding its exit from the origination and servicing businesses, MetLife Bank remains obligated to repurchase loans or compensate for losses upon demand due to alleged defects by MetLife Bank or its predecessor servicers in past servicing of the loans and material representations made in connection with MetLife Bank's sale of the loans. At the time the servicing portfolios were sold MetLife Bank was servicing \$75.2 billion in mortgage loans, of which \$58.9 billion were originated by MetLife Bank, and which loans were subject to both origination and servicing representations and warranties. Estimation of repurchase liability arising from breaches of origination representations and warranties requires considerable management judgment. MetLife Bank considers the level of outstanding unresolved repurchase demands and challenges to mortgage insurance, probable future demands in light of historical experience and changes in general economic conditions such as unemployment and the housing market, and the likelihood of recovery from indemnifications made to MetLife Bank relating to loans that MetLife Bank acquired rather than originated. Reserves for representation and warranty repurchases and indemnifications were \$95 million and \$69 million at December 31, 2012 and 2011, respectively. Reserves for estimated future losses due to alleged servicing deficiencies on loans originated and sold, as well as servicing acquired, are estimated based on unresolved claims as well as projected losses under investor servicing contracts where MetLife Bank's past actions or inactions are likely to result in missing certain stipulated investor timelines. Reserves for servicing defects were \$54 million and \$26 million at December 31, 2012 and 2011, respectively. Management is satisfied that adequate provision has been made in the Company's consolidated financial statements for those representation and warrant obligations that are currently probable and reasonably estimable.

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State and federal regulatory and law enforcement authorities have initiated various inquiries, investigations or examinations of alleged irregularities in the foreclosure practices of the residential mortgage servicing industry. Mortgage servicing practices have also been the subject of Congressional attention. Authorities have publicly stated that the scope of the investigations extends beyond foreclosure documentation practices to include mortgage loan modification and loss mitigation practices.

On April 13, 2011, the Office of the Comptroller of the Currency ( OCC ) entered into consent orders with several banks, including MetLife Bank. The consent orders require an independent review of foreclosure practices and set forth new residential mortgage servicing standards, including a requirement for a designated point of contact for a borrower during the loss mitigation process. In the first quarter of 2013, MetLife Bank entered into an agreement in principle with the OCC to settle obligations related to the independent foreclosure review required by its consent order. Under the agreement in principle, the foreclosure review will end and MetLife Bank will pay approximately \$46 million. In addition, the Federal Reserve Board entered into consent orders with the affiliated bank holding companies of these banks, including MetLife, Inc., to enhance the supervision of the mortgage servicing activities of their banking subsidiaries. On August 6, 2012, the Federal Reserve Board issued an Order of Assessment of a Civil Monetary Penalty Issued Upon Consent against MetLife, Inc. that will impose a penalty of up to \$3.2 million for the alleged deficiencies in oversight of MetLife Bank's servicing of residential mortgage loans and processing foreclosures that were the subject of the 2011 consent order.

MetLife Bank also had a meeting with the Department of Justice regarding mortgage servicing and foreclosure practices. It is possible that various state or federal regulatory and law enforcement authorities may seek monetary penalties from MetLife Bank relating to foreclosure practices.

MetLife Bank has also responded to a subpoena issued by the Department of Financial Services regarding hazard insurance and flood insurance that MetLife Bank obtains to protect the lienholder's interest when the borrower's insurance has lapsed. In April and May 2012, MetLife Bank received two subpoenas issued by the Office of Inspector General for the U.S. Department of Housing and Urban Development regarding Federal Housing Administration ( FHA ) insured loans. In June and September 2012, MetLife Bank received two Civil Investigative Demands that the U.S. Department of Justice issued as part of a False Claims Act investigation of allegations that MetLife Bank had improperly originated and/or underwritten loans insured by the FHA.

The consent decrees, as well as the inquiries or investigations referred to above, could adversely affect MetLife's reputation or result in significant fines, penalties, equitable remedies or other enforcement actions, and result in significant legal costs in responding to governmental investigations or other litigation.

The MetLife Bank Divestiture may not relieve MetLife from complying with the consent decrees, or protect it from the inquiries and investigations relating to residential mortgage servicing and foreclosure activities, or any fines, penalties, equitable remedies or enforcement actions that may result, the costs of responding to any such governmental investigations, or other litigation.

### **Summary of Critical Accounting Estimates**

The preparation of financial statements in conformity with GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. For a discussion of our significant accounting policies, see Note 1 of the Notes to the Consolidated Financial Statements. The most critical estimates include those used in determining:

- (i) liabilities for future policyholder benefits and the accounting for reinsurance;
- (ii) capitalization and amortization of DAC and the establishment and amortization of VOBA;
- (iii) estimated fair values of investments in the absence of quoted market values;
- (iv) investment impairments;



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- (v) estimated fair values of freestanding derivatives and the recognition and estimated fair value of embedded derivatives requiring bifurcation;
- (vi) measurement of goodwill and related impairment;
- (vii) measurement of employee benefit plan liabilities;
- (viii) measurement of income taxes and the valuation of deferred tax assets; and
- (ix) liabilities for litigation and regulatory matters.

In addition, the application of acquisition accounting requires the use of estimation techniques in determining the estimated fair values of assets acquired and liabilities assumed – the most significant of which relate to aforementioned critical accounting estimates. In applying our accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our business and operations. Actual results could differ from these estimates.

***Liability for Future Policy Benefits***

Generally, future policy benefits are payable over an extended period of time and related liabilities are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability terminations, investment returns, inflation, expenses and other contingent events as appropriate to the respective product type and geographical area. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable. Utilizing these assumptions, liabilities are established on a block of business basis. If experience is less favorable than assumed, additional liabilities may be established, resulting in a charge to policyholder benefits and claims.

Future policy benefit liabilities for disabled lives are estimated using the present value of benefits method and experience assumptions as to claim terminations, expenses and interest.

Liabilities for unpaid claims are estimated based upon our historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends and risk management programs, reduced for anticipated salvage and subrogation.

Future policy benefit liabilities for minimum death and income benefit guarantees relating to certain annuity contracts are based on estimates of the expected value of benefits in excess of the projected account balance, recognizing the excess ratably over the accumulation period based on total expected assessments. Liabilities for universal and variable life secondary guarantees and paid-up guarantees are determined by estimating the expected value of death benefits payable when the account balance is projected to be zero and recognizing those benefits ratably over the accumulation period based on total expected assessments. The assumptions used in estimating the secondary and paid-up guarantee liabilities are consistent with those used for amortizing DAC, and are thus subject to the same variability and risk. The assumptions of investment performance and volatility for variable products are consistent with historical experience of the appropriate underlying equity index, such as the Standard & Poor's Rating Services 500 Index.

We regularly review our estimates of liabilities for future policy benefits and compare them with our actual experience. Differences between actual experience and the assumptions used in pricing these policies and guarantees, as well as in the establishment of the related liabilities, result in variances in profit and could result in losses.

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See Note 4 of the Notes to the Consolidated Financial Statements for additional information on our liability for future policy benefits.

***Reinsurance***

Accounting for reinsurance requires extensive use of assumptions and estimates, particularly related to the future performance of the underlying business and the potential impact of counterparty credit risks. We periodically review actual and anticipated experience compared to the aforementioned assumptions used to establish assets and liabilities relating to ceded and assumed reinsurance and evaluate the financial strength of counterparties to our reinsurance agreements using criteria similar to that evaluated in the security impairment process discussed subsequently. Additionally, for each of our reinsurance agreements, we determine whether the agreement provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. We review all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. If we determine that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, we record the agreement using the deposit method of accounting.

See Note 6 of the Notes to the Consolidated Financial Statements for additional information on our reinsurance programs.

***Deferred Policy Acquisition Costs and Value of Business Acquired***

We incur significant costs in connection with acquiring new and renewal insurance business. Costs that relate directly to the successful acquisition or renewal of insurance contracts are deferred as DAC. In addition to commissions, certain direct-response advertising expenses and other direct costs, deferrable costs include the portion of an employee's total compensation and benefits related to time spent selling, underwriting or processing the issuance of new and renewal insurance business only with respect to actual policies acquired or renewed. We utilize various techniques to estimate the portion of an employee's time spent on qualifying acquisition activities that result in actual sales, including surveys, interviews, representative time studies and other methods. These estimates include assumptions that are reviewed and updated on a periodic basis or more frequently to reflect significant changes in processes or distribution methods.

VOBA represents the excess of book value over the estimated fair value of acquired insurance, annuity, and investment-type contracts in-force at the acquisition date. For certain acquired blocks of business, the estimated fair value of the in-force contract obligations exceeded the book value of assumed in-force insurance policy liabilities, resulting in negative VOBA, which is presented separately from VOBA as an additional insurance liability included in other policy-related balances. The estimated fair value of the acquired liabilities is based on projections, by each block of business, of future policy and contract charges, premiums, mortality and morbidity, separate account performance, surrenders, operating expenses, investment returns, nonperformance risk adjustment and other factors. Actual experience on the purchased business may vary from these projections. The recovery of DAC and VOBA is dependent upon the future profitability of the related business.

Separate account rates of return on variable universal life contracts and variable deferred annuity contracts affect in-force account balances on such contracts each reporting period, which can result in significant fluctuations in amortization of DAC and VOBA. Our practice to determine the impact of gross profits resulting from returns on separate accounts assumes that long-term appreciation in equity markets is not changed by short-term market fluctuations, but is only changed when sustained interim deviations are expected. We monitor these events and only change the assumption when our long-term expectation changes. The effect of an increase (decrease) by 100 basis points in the assumed future rate of return is reasonably likely to result in a decrease (increase) in the DAC and VOBA amortization of approximately \$180 million, with an offset to our unearned revenue liability of approximately \$30 million for this factor. We use a mean reversion approach to separate account returns where the mean reversion period is five years with a long-term separate account return after the five-year reversion period is over. The current long-term rate of return assumption for the variable universal life contracts and variable deferred annuity contracts is 7.25% for the U.S.

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We also periodically review other long-term assumptions underlying the projections of estimated gross margins and profits. These assumptions primarily relate to investment returns, policyholder dividend scales, interest crediting rates, mortality, persistency, and expenses to administer business. Assumptions used in the calculation of estimated gross margins and profits which may have significantly changed are updated annually. If the update of assumptions causes expected future gross margins and profits to increase, DAC and VOBA amortization will decrease, resulting in a current period increase to earnings. The opposite result occurs when the assumption update causes expected future gross margins and profits to decrease.

Our most significant assumption updates resulting in a change to expected future gross margins and profits and the amortization of DAC and VOBA are due to revisions to expected future investment returns, expenses, in-force or persistency assumptions and policyholder dividends on participating traditional life contracts, variable and universal life contracts and annuity contracts. We expect these assumptions to be the ones most reasonably likely to cause significant changes in the future. Changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

At December 31, 2012, 2011 and 2010, DAC and VOBA for the Company was \$24.8 billion, \$24.6 billion and \$24.5 billion, respectively. Amortization of DAC and VOBA associated with the variable and universal life and the annuity contracts was significantly impacted by movements in equity markets. The following illustrates the effect on DAC and VOBA of changing each of the respective assumptions, as well as updating estimated gross margins or profits with actual gross margins or profits during the years ended December 31, 2012, 2011 and 2010. Increases (decreases) in DAC and VOBA balances, as presented below, resulted in a corresponding decrease (increase) in amortization.

	Years Ended December 31,		
	2012	2011	2010
	(In millions)		
Investment return	\$ (161)	\$ (43)	\$ (71)
Separate account balances	39	(125)	49
Net investment gain (loss)	(44)	(530)	(109)
Guaranteed minimum income benefits	23	(13)	76
Expense	10	(6)	81
In-force/Persistency	368	(6)	(29)
Policyholder dividends and other	(4)	32	(159)
Total	\$ 231	\$ (691)	\$ (162)

The following represents significant items contributing to the changes to DAC and VOBA amortization in 2012:

The increase in actual, as well as changes in projected, investment returns resulted in an increase in actual and a reduction in expected future gross profits on variable universal life contracts and variable deferred annuity contracts resulting in an increase of \$161 million in DAC and VOBA amortization.

Better than expected persistency and changes in assumptions regarding persistency, especially in the U.S. deferred variable annuity contracts, resulted in an increase in actual and expected future gross profits resulting in a decrease of \$368 million in DAC and VOBA amortization.

The following represents significant items contributing to the changes to DAC and VOBA amortization in 2011:

The decrease in equity markets during the year lowered separate account balances, which led to a reduction in actual and expected future gross profits on variable universal life contracts and variable deferred annuity contracts resulting in an increase of \$125 million in DAC and VOBA amortization.





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Changes in net investment gains (losses) resulted in the following changes in DAC and VOBA amortization:

Actual gross profits decreased as a result of an increase in liabilities associated with guarantee obligations on variable annuities, resulting in a decrease of DAC and VOBA amortization of \$478 million, excluding the impact from our nonperformance risk and risk margins, which are described below. This decrease in actual gross profits was more than offset by freestanding derivative gains associated with the hedging of such guarantee obligations, which resulted in an increase in DAC and VOBA amortization of \$759 million.

The widening of the Company's nonperformance risk adjustment decreased the valuation of guarantee liabilities, increased actual gross profits and increased DAC and VOBA amortization by \$234 million. This was partially offset by higher risk margins, which increased the guarantee liability valuations, decreased actual gross profits and decreased DAC and VOBA amortization by \$64 million.

The remainder of the impact of net investment gains (losses), which increased DAC and VOBA amortization by \$79 million, was primarily attributable to current period investment activities.

The following represents significant items contributing to the changes to DAC and VOBA amortization in 2010:

Changes in net investment gains (losses) resulted in the following changes in DAC and VOBA amortization:

Actual gross profits increased as a result of a decrease in liabilities associated with guarantee obligations on variable annuities, resulting in an increase of DAC and VOBA amortization of \$188 million, excluding the impact from our nonperformance risk and risk margins, which are described below. This increase in actual gross profits was partially offset by freestanding derivative losses associated with the hedging of such guarantee obligations, which resulted in a decrease in DAC and VOBA amortization of \$84 million.

The narrowing of our nonperformance risk adjustment increased the valuation of guarantee liabilities, decreased actual gross profits and decreased DAC and VOBA amortization by \$92 million. In addition, higher risk margins, which increased the guarantee liability valuations, decreased actual gross profits and decreased DAC and VOBA amortization by \$17 million.

The remainder of the impact of net investment gains (losses), which increased DAC and VOBA amortization by \$114 million, was primarily attributable to current period investment activities.

Included in policyholder dividends and other was an increase in DAC and VOBA amortization of \$72 million as a result of favorable gross margin variances. The remainder of the increase was due to various immaterial items.

Our DAC and VOBA balance is also impacted by unrealized investment gains (losses) and the amount of amortization which would have been recognized if such gains and losses had been realized. The increase in unrealized investment gains decreased the DAC and VOBA balance by \$713 million, \$788 million and \$1.2 billion in 2012, 2011 and 2010, respectively. See Notes 5 and 8 of the Notes to the Consolidated Financial Statements for information regarding the DAC and VOBA offset to unrealized investment losses.

***Estimated Fair Value of Investments***

In determining the estimated fair value of our investments, various methodologies, assumptions and inputs are utilized.

When quoted prices in active markets are not available, the determination of estimated fair value is based on market standard valuation methodologies, giving priority to observable inputs. The market standard valuation methodologies utilized include: discounted cash flow

methodologies, matrix pricing or other similar techniques.

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The inputs to these market standard valuation methodologies include, but are not limited to: interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, sinking fund requirements, maturity, estimated duration and management's assumptions regarding liquidity and estimated future cash flows. Accordingly, the estimated fair values are based on available market information and management's judgments about financial instruments.

The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market.

When observable inputs are not available, the market standard valuation methodologies for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing such securities.

The estimated fair value of residential mortgage loans held-for-sale and securitized reverse residential mortgage loans is determined based on observable pricing for securities backed by similar types of loans, adjusted to convert the securities prices to loan prices, or from independent broker quotations, which is intended to approximate the amounts that would be received from third parties. Certain other mortgage loans that were previously designated as held-for-investment, but now are designated as held-for-sale, are recorded at the lower of amortized cost or estimated fair value, or for collateral dependent loans, estimated fair value of the collateral less expected disposition costs determined on an individual loan basis. For these loans, estimated fair value is determined using independent broker quotations, or values provided by independent valuation specialists, or when the loan is in foreclosure or otherwise collateral dependent, the estimated fair value of the underlying collateral is estimated using internal models.

Financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Our ability to sell securities, or the price ultimately realized for these securities, depends upon the demand and liquidity in the market and increases the use of judgment in determining the estimated fair value of certain securities.

See Note 10 of the Notes to the Consolidated Financial Statements for additional information regarding the estimated fair value of our investments.

### ***Investment Impairments***

One of the significant estimates related to available-for-sale ( AFS ) securities is our impairment evaluation. The assessment of whether an other-than-temporary impairment ( OTTI ) occurred is based on our case-by-case evaluation of the underlying reasons for the decline in estimated fair value on a security-by-security basis. Our review of each fixed maturity and equity security for OTTI includes an analysis of gross unrealized losses by three categories of severity and/or age of gross unrealized loss. An extended and severe unrealized loss position on a fixed maturity security may not have any impact on the ability of the issuer to service all scheduled interest and principal payments. Accordingly, such an unrealized loss position may not impact our evaluation of recoverability of all contractual cash flows or the ability to recover an amount at least equal to its amortized cost based on the present value of the expected future cash flows to be collected. In contrast, for certain equity securities, greater weight and consideration are given to a decline in estimated fair value and the likelihood such estimated fair value decline will recover.

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Additionally, we consider a wide range of factors about the security issuer and use our best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for near-term recovery. Inherent in our evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Factors we consider in the OTTI evaluation process are described in Note 8 of the Notes to Consolidated Financial Statements.

The determination of the amount of allowances and impairments on the remaining invested asset classes is highly subjective and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

See Note 8 of the Notes to the Consolidated Financial Statements for additional information relating to our determination of the amount of allowances and impairments.

***Derivatives***

The determination of estimated fair value of freestanding derivatives, when quoted market values are not available, is based on market standard valuation methodologies and inputs that management believes are consistent with what other market participants would use when pricing the instruments. Derivative valuations can be affected by changes in interest rates, foreign currency exchange rates, financial indices, credit spreads, default risk, nonperformance risk, volatility, liquidity and changes in estimates and assumptions used in the pricing models. See Note 10 of the Notes to the Consolidated Financial Statements for additional details on significant inputs into the over-the-counter ( OTC ) derivative pricing models and credit risk adjustment.

We issue certain variable annuity products with guaranteed minimum benefits, which are measured at estimated fair value separately from the host variable annuity product, with changes in estimated fair value reported in net derivative gains (losses). The estimated fair values of these embedded derivatives are determined based on the present value of projected future benefits minus the present value of projected future fees. The projections of future benefits and future fees require capital market and actuarial assumptions, including expectations concerning policyholder behavior. A risk neutral valuation methodology is used under which the cash flows from the guarantees are projected under multiple capital market scenarios using observable risk free rates. The valuation of these embedded derivatives also includes an adjustment for our nonperformance risk and risk margins for non-capital market inputs. The nonperformance risk adjustment, which is captured as a spread over the risk free rate in determining the discount rate to discount the cash flows of the liability, is determined by taking into consideration publicly available information relating to spreads in the secondary market for MetLife, Inc. s debt, including related credit default swaps. These observable spreads are then adjusted, as necessary, to reflect the priority of these liabilities and the claims paying ability of the issuing insurance subsidiaries compared to MetLife, Inc. Risk margins are established to capture the non-capital market risks of the instrument which represent the additional compensation a market participant would require to assume the risks related to the uncertainties in certain actuarial assumptions. The establishment of risk margins requires the use of significant management judgment, including assumptions of the amount and cost of capital needed to cover the guarantees.

The table below illustrates the impact that a range of reasonably likely variances in credit spreads would have on our consolidated balance sheet, excluding the effect of income tax, related to the embedded derivative valuation on certain variable annuity products measured at estimated fair value. However, these estimated effects do not take into account potential changes in other variables, such as equity price levels and market volatility, that can also contribute significantly to changes in carrying values. Therefore, the table does not necessarily reflect the ultimate impact on the consolidated financial statements under the credit spread variance scenarios presented below.

In determining the ranges, we have considered current market conditions, as well as the market level of spreads that can reasonably be anticipated over the near term. The ranges do not reflect extreme market conditions experienced during the recent financial crisis as we do not consider those to be reasonably likely events in the near future.

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	<b>Changes in Balance Sheet</b>	
	<b>Carrying Value At December 31, 2012</b>	
	<b>Policyholder Account Balances</b>	<b>DAC and VOBA</b>
	<b>(In millions)</b>	
100% increase in our credit spread	\$ 2,368	\$ 232
As reported	\$ 3,308	\$ 313
50% decrease in our credit spread	\$ 3,910	\$ 379

The accounting for derivatives is complex and interpretations of accounting standards continue to evolve in practice. If it is determined that hedge accounting designations were not appropriately applied, reported net income could be materially affected. Assessments of hedge effectiveness and measurements of ineffectiveness of hedging relationships are also subject to interpretations and estimations and different interpretations or estimates may have a material effect on the amount reported in net income.

Variable annuities with guaranteed minimum benefits may be more costly than expected in volatile or declining equity markets. Market conditions including, but not limited to, changes in interest rates, equity indices, market volatility and foreign currency exchange rates, changes in our nonperformance risk, variations in actuarial assumptions regarding policyholder behavior, mortality and risk margins related to non-capital market inputs, may result in significant fluctuations in the estimated fair value of the guarantees that could materially affect net income. If interpretations change, there is a risk that features previously not bifurcated may require bifurcation and reporting at estimated fair value in the consolidated financial statements and respective changes in estimated fair value could materially affect net income.

Additionally, we ceded the risk associated with certain of the variable annuities with guaranteed minimum benefits described in the preceding paragraphs. The value of the embedded derivatives on the ceded risk is determined using a methodology consistent with that described previously for the guarantees directly written by us with the exception of the input for nonperformance risk that reflects the credit of the reinsurer. Because certain of the direct guarantees do not meet the definition of an embedded derivative and, thus are not accounted for at fair value, significant fluctuations in net income may occur since the change in fair value of the embedded derivative on the ceded risk is being recorded in net income without a corresponding and offsetting change in fair value of the direct guarantee.

See Note 9 of the Notes to the Consolidated Financial Statements for additional information on our derivatives and hedging programs.

**Goodwill**

Goodwill is tested for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test.

For purposes of goodwill impairment testing, if the carrying value of a reporting unit exceeds its estimated fair value, the implied fair value of the reporting unit goodwill is compared to the carrying value of that goodwill to measure the amount of impairment loss, if any. In such instances, the implied fair value of the goodwill is determined in the same manner as the amount of goodwill that would be determined in a business acquisition. The key inputs, judgments and assumptions necessary in determining estimated fair value of the reporting units include projected operating earnings, current book value, the level of economic capital required to support the mix of business, long-term growth rates, comparative market multiples, the account value of in-force business, projections of new and renewal business, as well as margins on such business, the level of interest rates, credit spreads, equity market levels, and the discount rate that we believe is appropriate for the respective reporting unit. The estimated fair values of the Retail Annuities and Retail Life & Other reporting units are particularly sensitive to interest rate and equity market levels.

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We performed the annual goodwill impairment test on our Retail Annuities reporting unit using both the market multiple and discounted cash flow valuation approaches. Results for both approaches indicated that the fair value of the Retail Annuities reporting unit was below its carrying value. As a result, an actuarial appraisal, which estimates the net worth of the reporting unit, the value of existing business and the value of new business, was performed. This appraisal resulted in a fair value of the Retail Annuities reporting unit that was less than the carrying value, indicating a potential for goodwill impairment. The actuarial appraisal reflected the expected market impact to a buyer of changes in the regulatory environment, continued low interest rates for an extended period of time, and other market and economic factors. Specifically, in July 2012, the Department of Financial Services initiated an inquiry into the use of captive or off-shore reinsurers, strategies many market participants have used for capital efficiency on variable annuity products; the National Association of Insurance Commissioners ( NAIC ) has also been studying the use of captives. Additionally, in the third quarter of 2012, the Federal Reserve announced that it anticipated that low interest rates were likely to be warranted at least through mid-2015, extending the time horizon from previous announcements and Moody's changed its outlook for the U.S. life insurance industry to negative from stable, and stated that it expects interest rates to remain in the low single digits for the next few years. As a result, we performed Step 2 of the goodwill impairment process, which compares the implied fair value of the reporting unit's goodwill with its carrying value. This analysis indicated that the recorded goodwill associated with this reporting unit was not recoverable. Therefore, we recorded a non-cash charge of \$1.9 billion (\$1.6 billion, net of income tax) for the impairment of the entire goodwill balance that is reported in goodwill impairment in the consolidated statements of operations and comprehensive income for the year ended December 31, 2012.

We performed the annual goodwill impairment test on our Retail Life reporting unit which passed both the market multiple valuation and the discounted cash flow valuation approaches. The fair value of the reporting unit, calculated based on application of the discounted cash flow valuation approach, exceeded the carrying value by approximately 3%. If we had assumed that the discount rate was 100 basis points higher than the discount rate used, the fair value of the Retail Life reporting unit would have been less than the carrying value by approximately 1%.

In addition, we performed the annual goodwill impairment tests on our other reporting units using a market multiple and/or the discounted cash flow approach and concluded that the fair values of all such reporting units were in excess of their carrying values and, therefore, goodwill was not impaired.

As anticipated, in the third quarter of 2012, we continued to realign certain products and businesses among our existing segments. As a result, beginning in the third quarter of 2012, the Retail Life reporting unit was integrated with other products and businesses, including the Retail property & casualty business, which is less sensitive to changes in interest rates. The amount of goodwill allocated to the Retail Life & Other reporting unit was approximately \$1.5 billion as of December 31, 2012. As a result of the realignment during the third quarter, we performed an analysis to identify all reporting units under the revised structure. Based on a qualitative assessment performed, we concluded that there were no indicators of a scenario in which it was more likely than not that any reporting units had a carrying value that exceeded fair value, and thus, no further impairment analysis was performed. On an ongoing basis, we evaluate potential triggering events that may affect the estimated fair value of our reporting units to assess whether any goodwill impairment exists.

We apply significant judgment when determining the estimated fair value of our reporting units and when assessing the relationship of market capitalization to the aggregate estimated fair value of our reporting units. The valuation methodologies utilized are subject to key judgments and assumptions that are sensitive to change. Estimates of fair value are inherently uncertain and represent only management's reasonable expectation regarding future developments. These estimates and the judgments and assumptions upon which the estimates are based will, in all likelihood, differ in some respects from actual future results. Declines in the estimated fair value of our reporting units could result in goodwill impairments in future periods which could materially adversely affect our results of operations or financial position.

See Note 11 of the Notes to the Consolidated Financial Statements for additional information on our goodwill.

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***Employee Benefit Plans***

Certain subsidiaries of MetLife, Inc. sponsor and/or administer various plans that provide defined benefit pension and other postretirement benefits covering eligible employees and sales representatives. The calculation of the obligations and expenses associated with these plans requires an extensive use of assumptions such as the discount rate, expected rate of return on plan assets, rate of future compensation increases and healthcare cost trend rates, as well as assumptions regarding participant demographics such as rate and age of retirements, withdrawal rates and mortality. In consultation with external actuarial firms, we determine these assumptions based upon a variety of factors such as historical experience of the plan and its assets, currently available market and industry data, and expected benefit payout streams.

We determine the expected rate of return on plan assets based upon an approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation, as well as expenses, expected asset manager performance, asset weights and the effect of rebalancing. Given the amount of plan assets as of December 31, 2011, the beginning of the measurement year, if we had assumed an expected rate of return for both our pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic benefit costs would have been a decrease of \$84 million and an increase of \$84 million, respectively, in 2012. This considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

We determine the discount rates used to value the pension and postretirement obligations, based upon rates commensurate with current yields on high quality corporate bonds. Given our pension and postretirement obligations as of December 31, 2011, the beginning of the measurement year, if we had assumed a discount rate for both our pension and postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic benefit costs would have been a decrease of \$133 million and an increase of \$153 million, respectively, in 2012. This considers only changes in our assumed discount rates without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics. These differences may have a significant effect on the Company's consolidated financial statements and liquidity.

See Note 18 of the Notes to the Consolidated Financial Statements for additional discussion of assumptions used in measuring liabilities relating to our employee benefit plans.

***Income Taxes***

We provide for federal, state and foreign income taxes currently payable, as well as those deferred due to temporary differences between the financial reporting and tax bases of assets and liabilities. Our accounting for income taxes represents our best estimate of various events and transactions. These tax laws are complex and are subject to differing interpretations by the taxpayer and the relevant governmental taxing authorities. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions, both domestic and foreign.



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The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction. Valuation allowances are established when management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Factors in management's determination include the performance of the business and its ability to generate capital gains. Significant judgment is required in determining whether valuation allowances should be established, as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- (i) future taxable income exclusive of reversing temporary differences and carryforwards;
- (ii) future reversals of existing taxable temporary differences;
- (iii) taxable income in prior carryback years; and
- (iv) tax planning strategies.

Disputes over interpretations of the tax laws may be subject to review and adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon audit. We determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit is recorded in the financial statements. We may be required to change our provision for income taxes when estimates used in determining valuation allowances on deferred tax assets significantly change, or when receipt of new information indicates the need for adjustment in valuation allowances. Additionally, future events, such as changes in tax laws, tax regulations, or interpretations of such laws or regulations, could have an impact on the provision for income tax and the effective tax rate. Any such changes could significantly affect the amounts reported in the consolidated financial statements in the year these changes occur.

See Note 19 of the Notes to the Consolidated Financial Statements for additional information on our income taxes.

***Litigation Contingencies***

We are a party to a number of legal actions and are involved in a number of regulatory investigations. Given the inherent unpredictability of these matters, it is difficult to estimate the impact on our financial position. Liabilities are established when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Liabilities related to certain lawsuits, including our asbestos-related liability, are especially difficult to estimate due to the limitation of available data and uncertainty regarding numerous variables that can affect liability estimates. The data and variables that impact the assumptions used to estimate our asbestos-related liability include the number of future claims, the cost to resolve claims, the disease mix and severity of disease in pending and future claims, the impact of the number of new claims filed in a particular jurisdiction and variations in the law in the jurisdictions in which claims are filed, the possible impact of tort reform efforts, the willingness of courts to allow plaintiffs to pursue claims against us when exposure to asbestos took place after the dangers of asbestos exposure were well known, and the impact of any possible future adverse verdicts and their amounts. On a quarterly and annual basis, we review relevant information with respect to liabilities for litigation, regulatory investigations and litigation-related contingencies to be reflected in our consolidated financial statements. It is possible that an adverse outcome in certain of our litigation and regulatory investigations, including asbestos-related cases, or the use of different assumptions in the determination of amounts recorded could have a material effect upon our consolidated net income or cash flows in particular quarterly or annual periods.

See Note 21 of the Notes to the Consolidated Financial Statements for additional information regarding our assessment of litigation contingencies.

**Economic Capital**

Economic capital is an internally developed risk capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The economic capital model accounts for the unique and specific nature of the risks inherent in our business.



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Our economic capital model aligns segment allocated equity with emerging standards and consistent risk principles. Segment net investment income is credited or charged based on the level of allocated equity; however, changes in allocated equity do not impact our consolidated net investment income, operating earnings or income (loss) from continuing operations, net of income tax.

**Acquisitions and Dispositions**

See Notes 3 and 23 of the Notes to the Consolidated Financial Statements.

**Table of Contents****Results of Operations****Consolidated Results**

We have experienced growth and an increase in sales in several of our businesses, both domestic and foreign. In the U.S., the economy has continued to slowly improve and, as a result, our group term life and disability businesses exhibited growth from new sales, and our dental business continued to benefit from strong enrollments and renewals along with a large new group contract that began in the second quarter of 2012. Sales of variable annuities declined in response to actions taken to manage sales volume as we focus on pricing discipline and risk management in this challenging economic environment. Lower interest rates and a more competitive market adversely impacted sales of our pension closeouts and structured settlements. Although policy sales of our property and casualty products remained sluggish, our average premiums for new policies increased. Sales in nearly all of our businesses abroad have improved despite the challenging economic environment in certain European countries.

	Years Ended December 31,		
	2012	2011	2010
	(In millions)		
<b>Revenues</b>			
Premiums	\$ 37,975	\$ 36,361	\$ 27,071
Universal life and investment-type product policy fees	8,556	7,806	6,028
Net investment income	21,984	19,585	17,493
Other revenues	1,906	2,532	2,328
Net investment gains (losses)	(352)	(867)	(408)
Net derivative gains (losses)	(1,919)	4,824	(265)
 Total revenues	 68,150	 70,241	 52,247
<b>Expenses</b>			
Policyholder benefits and claims and policyholder dividends	39,356	36,917	30,672
Interest credited to policyholder account balances	7,729	5,603	4,919
Goodwill impairment	1,868		
Capitalization of DAC	(5,289)	(5,558)	(2,770)
Amortization of DAC and VOBA	4,199	4,898	2,477
Amortization of negative VOBA	(622)	(697)	(64)
Interest expense on debt	1,356	1,629	1,550
Other expenses	18,111	18,265	11,734
 Total expenses	 66,708	 61,057	 48,518
 Income (loss) from continuing operations before provision for income tax	 1,442	 9,184	 3,729
Provision for income tax expense (benefit)	128	2,793	1,110
 Income (loss) from continuing operations, net of income tax	 1,314	 6,391	 2,619
Income (loss) from discontinued operations, net of income tax	48	24	44
 Net income (loss)	 1,362	 6,415	 2,663
Less: Net income (loss) attributable to noncontrolling interests	38	(8)	(4)
 Net income (loss) attributable to MetLife, Inc.	 1,324	 6,423	 2,667
Less: Preferred stock dividends	122	122	122
Preferred stock redemption premium		146	
 Net income (loss) available to MetLife, Inc.'s common shareholders	 \$ 1,202	 \$ 6,155	 \$ 2,545



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**Table of Contents****Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011**

During the year ended December 31, 2012, income (loss) from continuing operations, before provision for income tax, decreased \$7.7 billion (\$5.1 billion, net of income tax) from the prior year primarily driven by an unfavorable change in net derivative gains (losses) and a goodwill impairment charge in the current year.

We manage our investment portfolio using disciplined ALM principles, focusing on cash flow and duration to support our current and future liabilities. Our intent is to match the timing and amount of liability cash outflows with invested assets that have cash inflows of comparable timing and amount, while optimizing risk-adjusted net investment income and risk-adjusted total return. Our investment portfolio is heavily weighted toward fixed income investments, with over 80% of our portfolio invested in fixed maturity securities and mortgage loans. These securities and loans have varying maturities and other characteristics which cause them to be generally well suited for matching the cash flow and duration of insurance liabilities. Other invested asset classes including, but not limited to, equity securities, other limited partnership interests and real estate and real estate joint ventures, provide additional diversification and opportunity for long-term yield enhancement in addition to supporting the cash flow and duration objectives of our investment portfolio. We also use derivatives as an integral part of our management of the investment portfolio to hedge certain risks, including changes in interest rates, foreign currency exchange rates, credit spreads and equity market levels. Additional considerations for our investment portfolio include current and expected market conditions and expectations for changes within our specific mix of products and business segments. In addition, the general account investment portfolio includes, within fair value option ( FVO ) and trading securities, contractholder-directed investments supporting unit-linked variable annuity type liabilities, which do not qualify as separate account assets. The returns on these contractholder-directed investments, which can vary significantly period to period, include changes in estimated fair value subsequent to purchase, inure to contractholders and are offset in earnings by a corresponding change in policyholder account balances ( PABs ) through interest credited to policyholder account balances.

The composition of the investment portfolio of each business segment is tailored to the specific characteristics of its insurance liabilities, causing certain portfolios to be shorter in duration and others to be longer in duration. Accordingly, certain portfolios are more heavily weighted in longer duration, higher yielding fixed maturity securities, or certain sub-sectors of fixed maturity securities, than other portfolios.

Investments are purchased to support our insurance liabilities and not to generate net investment gains and losses. However, net investment gains and losses are incurred and can change significantly from period to period due to changes in external influences, including changes in market factors such as interest rates, foreign currency exchange rates, credit spreads and equity markets; counterparty specific factors such as financial performance, credit rating and collateral valuation; and internal factors such as portfolio rebalancing. Changes in these factors from period to period can significantly impact the levels of both impairments and realized gains and losses on investments sold.

We use freestanding interest rate, equity, credit and currency derivatives to hedge certain invested assets and insurance liabilities. Certain of these hedges are designated and qualify as accounting hedges, which reduce volatility in earnings. For those hedges not designated as accounting hedges, changes in market factors lead to the recognition of fair value changes in net derivative gains (losses) generally without an offsetting gain or loss recognized in earnings for the item being hedged.

Certain variable annuity products with minimum benefit guarantees contain embedded derivatives that are measured at estimated fair value separately from the host variable annuity contract, with changes in estimated fair value recorded in net derivative gains (losses). The Company uses freestanding derivatives to hedge the market risks inherent in these variable annuity guarantees. The valuation of these embedded derivatives includes a nonperformance risk adjustment, which is unhedged and can be a significant driver of net derivative gains (losses) but does not have an economic impact on the Company.

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The variable annuity embedded derivatives and associated freestanding derivative hedges are collectively referred to as VA program derivatives in the following table. All other derivatives that are economic hedges of certain invested assets and insurance liabilities are referred to as non-VA program derivatives in the following table. The table below presents the impact on net derivative gains (losses) from non-VA program derivatives and VA program derivatives:

	Years Ended December 31,		Change
	2012	2011	
	(In millions)		
<b>Non-VA program derivatives</b>			
Interest rate	\$ 271	\$ 2,536	\$ (2,265)
Foreign currency exchange rate	(426)	171	(597)
Credit	(105)	173	(278)
Equity	1	6	(5)
Non-VA embedded derivatives	(61)	17	(78)
<b>Total non-VA program derivatives</b>	<b>(320)</b>	<b>2,903</b>	<b>(3,223)</b>
<b>VA program derivatives</b>			
Market and other risks in embedded derivatives	2,959	(3,123)	6,082
Nonperformance risk on embedded derivatives	(1,659)	1,822	(3,481)
<b>Total embedded derivatives</b>	<b>1,300</b>	<b>(1,301)</b>	<b>2,601</b>
Freestanding derivatives hedging embedded derivatives	(2,899)	3,222	(6,121)
<b>Total VA program derivatives</b>	<b>(1,599)</b>	<b>1,921</b>	<b>(3,520)</b>
<b>Net derivative gains (losses)</b>	<b>\$ (1,919)</b>	<b>\$ 4,824</b>	<b>\$ (6,743)</b>

The unfavorable change in net derivative gains (losses) on non-VA program derivatives was \$3.2 billion (\$2.1 billion, net of income tax). This was primarily due to long-term interest rates increasing in the current period but decreasing in the prior period, unfavorably impacting receive-fixed interest rate swaps, long interest rate floors and receiver swaptions. These freestanding derivatives are primarily hedging long duration liability portfolios. The weakening of the U.S. dollar and Japanese yen relative to other key currencies unfavorably impacted foreign currency forwards and swaps, which primarily hedge certain foreign denominated bonds. Additionally, the narrowing of credit spreads in the current period compared to widening in the prior period unfavorably impacted credit default swaps hedging certain bonds. Because certain of these hedging strategies are not designated or do not qualify as accounting hedges, the changes in the estimated fair value of these freestanding derivatives are recognized in net derivative gains (losses) without an offsetting gain or loss recognized in earnings for the item being hedged.

The unfavorable change in net derivative gains (losses) on VA program derivatives was \$3.5 billion (\$2.3 billion, net of income tax). This was due to an unfavorable change of \$3.5 billion (\$2.3 billion, net of income tax) related to the change in the nonperformance risk adjustment on embedded derivatives and by an unfavorable change of \$39 million (\$25 million, net of income tax) on market and other risks in embedded derivatives, net of the impact of freestanding derivatives hedging those risks.

The unfavorable change of \$39 million is comprised of a \$6.1 billion (\$4.0 billion, net of income tax) unfavorable change in freestanding derivatives that hedge market risks in embedded derivatives, which was offset by a \$6.1 billion (\$4.0 billion, net of income tax) favorable change in market and other risks in our embedded derivatives, which was primarily driven by changes in market factors. The primary changes in market factors are summarized as follows:

Long-term interest rates increased in the current period but decreased in the prior period and contributed to an unfavorable change in our freestanding derivatives and favorable changes in our embedded derivatives.

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Key equity index levels improved in the current period but decreased in the prior period, and equity volatility decreased in the current period but generally increased in the prior period. These changes contributed to an unfavorable change in our freestanding derivatives and a favorable change in our embedded derivatives.

Changes in foreign currency exchange rates contributed to an unfavorable change in our freestanding derivatives and favorable changes in our embedded derivatives.

The decrease in net investment losses primarily reflects a significant decrease in current period impairments, as compared to the prior period on fixed maturity securities, primarily attributable to prior year impairments on Greece sovereign debt securities, prior year intent-to-sell OTTI on other sovereign debt due to the repositioning of the acquired ALICO portfolio into longer duration and higher yielding investments, and prior year intent-to-sell impairments related to the Divested Businesses, partially offset by a decrease in gains on sales of real estate investments.

In addition, the current year includes a \$1.9 billion (\$1.6 billion, net of income tax) non-cash charge for goodwill impairment associated with our U.S. retail annuities business. Also, the current year includes a \$1.2 billion (\$752 million, net of income tax) charge associated with the global review of assumptions related to DAC, reserves and certain intangibles, of which \$526 million (\$342 million, net of income tax) was reflected in net derivative gains (losses).

Income (loss) from continuing operations, before provision for income tax, related to the Divested Businesses, excluding net investment gains (losses) and net derivative gains (losses), decreased \$724 million to a loss of \$659 million in 2012 compared to income of \$65 million in the prior year. Included in this loss was a decrease in total revenues of \$797 million and a decrease in total expenses of \$73 million. The Divested Businesses include certain operations of MetLife Bank and the Caribbean region, Panama and Costa Rica (the Caribbean Business).

Income tax expense for the year ended December 31, 2012 was \$128 million, or 9% of income (loss) from continuing operations before provision for income tax, compared with income tax expense of \$2.8 billion, or 30% of income (loss) from continuing operations before provision for income tax, for the prior year. The Company's 2012 and 2011 effective tax rates differ from the U.S. statutory rate of 35% primarily due to the impact of certain permanent tax differences, including non-taxable investment income and tax credits for investments in low income housing, in relation to income (loss) from continuing operations before provision for income tax, as well as certain foreign permanent tax differences. The Company also recorded a \$324 million tax benefit in the current year to reduce deferred income tax liabilities related to the conversion of the Japan branch to a subsidiary. In addition, as previously mentioned, the current year includes a \$1.9 billion (\$1.6 billion, net of income tax) non-cash charge for goodwill impairment. The income tax benefit associated with this charge is limited to \$247 million on the associated tax goodwill.

As more fully described in Non-GAAP and Other Financial Disclosures, we use operating earnings, which does not equate to income (loss) from continuing operations, net of income tax, as determined in accordance with GAAP, to analyze our performance, evaluate segment performance, and allocate resources. We believe that the presentation of operating earnings and operating earnings available to common shareholders, as we measure it for management purposes, enhances the understanding of our performance by highlighting the results of operations and the underlying profitability drivers of the business. Operating earnings and operating earnings available to common shareholders should not be viewed as substitutes for GAAP income (loss) from continuing operations, net of income tax, and GAAP net income (loss) available to MetLife, Inc.'s common shareholders, respectively. Operating earnings available to common shareholders increased \$1.0 billion, net of income tax, to \$5.7 billion, net of income tax, for the year ended December 31, 2012 from \$4.7 billion, net of income tax, in the prior year.



**Table of Contents****Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010**

During the year ended December 31, 2011, income (loss) from continuing operations, before provision for income tax, increased \$5.5 billion (\$3.8 billion, net of income tax) over the prior year primarily driven by a favorable change in net derivative gains (losses), partially offset by increased net investment losses, net of related adjustments, principally associated with DAC and VOBA amortization. Also included in income (loss) from continuing operations, before provision for income tax, are the results of the Divested Businesses. In addition, operating earnings increased, reflecting the impact of the ALICO Acquisition.

The variable annuity embedded derivatives and associated freestanding derivative hedges are collectively referred to as VA program derivatives in the following table. All other derivatives that are economic hedges of certain invested assets and insurance liabilities are referred to as non-VA program derivatives in the following table. The table below presents the impact on net derivative gains (losses) from non-VA program derivatives and VA program derivatives:

	Years Ended December 31,		
	2011	2010	Change
	(In millions)		
<b>Non-VA program derivatives</b>			
Interest rate	\$ 2,536	\$ 297	\$ 2,239
Foreign currency exchange rate	171	(296)	467
Credit	173	14	159
Equity	6	75	(69)
Non-VA embedded derivatives	17	(81)	98
<b>Total non-VA program derivatives</b>	<b>2,903</b>	<b>9</b>	<b>2,894</b>
<b>VA program derivatives</b>			
Market and other risks in embedded derivatives	(3,123)	(210)	(2,913)
Nonperformance risk on embedded derivatives	1,822	(96)	1,918
<b>Total embedded derivatives</b>	<b>(1,301)</b>	<b>(306)</b>	<b>(995)</b>
Freestanding derivatives hedging embedded derivatives	3,222	32	3,190
<b>Total VA program derivatives</b>	<b>1,921</b>	<b>(274)</b>	<b>2,195</b>
<b>Net derivative gains (losses)</b>	<b>\$ 4,824</b>	<b>\$ (265)</b>	<b>\$ 5,089</b>

The favorable change in net derivative gains (losses) on non VA program derivatives was \$2.9 billion (\$1.9 billion, net of income tax). This was primarily due to interest rates decreasing more in the current period than in the prior period favorably impacting receive fixed interest rate swaps, long interest rate floors, long interest rate futures, and receiver swaptions. These freestanding derivatives are primarily hedging long duration liability portfolios. The strengthening of the U.S. dollar and Japanese yen relative to other key currencies favorably impacted foreign currency forwards and swaps, which primarily hedge certain foreign denominated bonds. Additionally, the widening of credit spreads favorably impacted credit default swaps hedging certain bonds. Because certain of these hedging strategies are not designated or do not qualify as accounting hedges, the changes in the estimated fair value of these freestanding derivatives are recognized in net derivative gains (losses) without an offsetting gain or loss recognized in earnings for the item being hedged.

The favorable change in net derivative gains (losses) on VA program derivatives was \$2.2 billion (\$1.4 billion, net of income tax). This was due to an favorable change of \$1.9 billion (\$1.2 billion, net of income tax) related to the change in the nonperformance risk adjustment on embedded derivatives and a favorable change of \$277 million (\$180 million, net of income tax) on market and other risks in embedded derivatives, net of the impact of freestanding derivatives hedging those risks.

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The favorable change of \$277 million is comprised of a \$3.2 billion (\$2.1 billion, net of income tax) favorable change in freestanding derivatives that hedge market risks in embedded derivatives, partially offset by a \$2.9 billion (\$1.9 billion, net of income tax) unfavorable change in market and other risks in our embedded derivatives, which was primarily driven by changes in market factors. The primary changes in market factors are summarized as follows:

Key equity index levels decreased in the current period but were mixed in the prior period, and equity volatility was mixed in both the current period and prior period. These changes contributed to a favorable change in our freestanding derivatives and an unfavorable change in our embedded derivatives.

Long-term and mid-term interest rates decreased more in the current period than in the prior period and contributed to a favorable change in our freestanding derivatives and unfavorable changes in our embedded derivatives.

Changes in foreign currency exchange rates contributed to an unfavorable change in our freestanding derivatives and a favorable change in our embedded derivatives.

The increase in net investment losses primarily reflects impairments on Greece sovereign debt securities, intent-to-sell OTTI on other sovereign debt securities due to the repositioning of the ALICO portfolio into longer duration and higher yielding investments, intent-to-sell OTTI related to the Divested Businesses, and lower net gains on sales of fixed maturity and equity securities. These losses were partially offset by net gains on the sales of certain real estate investments and reductions in the mortgage valuation allowance reflecting improving real estate market fundamentals.

Income (loss) from continuing operations, before provision for income tax, related to Divested Businesses, excluding net investment gains (losses) and net derivative gains (losses), decreased \$318 million to income of \$65 million in 2011 compared to income of \$383 million in 2010. Included in this loss was an increase in total revenues of \$28 million and an increase in total expenses of \$346 million.

Income tax expense for the year ended December 31, 2011 was \$2.8 billion, or 30% of income (loss) from continuing operations before provision for income tax, compared with \$1.1 billion, or 30% of income (loss) from continuing operations before provision for income tax, for 2010. The Company's 2011 and 2010 effective tax rates differ from the U.S. statutory rate of 35% primarily due to the impact of certain permanent tax differences, including non-taxable investment income and tax credits for investments in low income housing, in relation to income (loss) from continuing operations before provision for income tax, as well as certain foreign permanent tax differences.

Operating earnings available to common shareholders increased \$1.1 billion, net of income tax, to \$4.7 billion, net of income tax, in 2011 from \$3.6 billion, net of income tax, in 2010.

**Table of Contents****Reconciliation of income (loss) from continuing operations, net of income tax, to operating earnings available to common shareholders****Year Ended December 31, 2012**

	Retail	Group, Voluntary & Worksite Benefits	Corporate Benefit Funding	Latin America	Asia	EMEA	Corporate & Other	Total
	(In millions)							
Income (loss) from continuing operations, net of income tax	\$ (44)	\$ 824	\$ 1,204	\$ 479	\$ 976	\$ 293	\$ (2,418)	\$ 1,314
Less: Net investment gains (losses)	212	(7)	107	(2)	(342)	31	(351)	(352)
Less: Net derivative gains (losses)	162	(63)	(157)	38	(170)	61	(1,790)	(1,919)
Less: Goodwill impairment	(1,692)						(176)	(1,868)
Less: Other adjustments to continuing operations (1)	(1,260)	(141)	19	(193)	(32)	(22)	(921)	(2,550)
Less: Provision for income tax (expense) benefit	532	75	11	53	483	(48)	1,089	2,195
Operating earnings	\$ 2,002	\$ 960	\$ 1,224	\$ 583	\$ 1,037	\$ 271	(269)	5,808
Less: Preferred stock dividends							122	122
Operating earnings available to common shareholders							\$ (391)	\$ 5,686

**Year Ended December 31, 2011**

	Retail	Group, Voluntary & Worksite Benefits	Corporate Benefit Funding	Latin America	Asia	EMEA	Corporate & Other	Total
	(In millions)							
Income (loss) from continuing operations, net of income tax	\$ 2,486	\$ 1,568	\$ 1,454	\$ 214	\$ 835	\$ (153)	\$ (13)	\$ 6,391
Less: Net investment gains (losses)	158	(26)	19	(6)	(305)	(525)	(182)	(867)
Less: Net derivative gains (losses)	2,321	1,203	426	(36)	202	32	676	4,824
Less: Goodwill impairment								
Less: Other adjustments to continuing operations (1)	(709)	(137)	79	(340)	14	(75)	(283)	(1,451)
Less: Provision for income tax (expense) benefit	(619)	(363)	(182)	82	44	164	(40)	(914)
Operating earnings	\$ 1,335	\$ 891	\$ 1,112	\$ 514	\$ 880	\$ 251	(184)	4,799
Less: Preferred stock dividends							122	122
Operating earnings available to common shareholders							\$ (306)	\$ 4,677

**Year Ended December 31, 2010**

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	Retail	Group, Voluntary & Worksite Benefits	Corporate Benefit Funding	Latin America	Asia	EMEA	Corporate & Other	Total
	(In millions)							
Income (loss) from continuing operations, net of income tax	\$ 1,371	\$ 924	\$ 1,120	\$ 204	\$ (160)	\$ (175)	\$ (665)	\$ 2,619
Less: Net investment gains (losses)	178	8	225	(26)	(208)	(136)	(449)	(408)
Less: Net derivative gains (losses)	210	184	(107)	19	(173)	(33)	(365)	(265)
Less: Goodwill impairment								
Less: Other adjustments to continuing operations (1)	(509)	(107)	131	(274)	(122)	(4)	177	(708)
Less: Provision for income tax (expense) benefit	36	(30)	(87)	62	119	5	199	304
Operating earnings	\$ 1,456	\$ 869	\$ 958	\$ 423	\$ 224	\$ (7)	(227)	3,696
Less: Preferred stock dividends							122	122
Operating earnings available to common shareholders							\$ (349)	\$ 3,574

(1) See definitions of operating revenues and operating expenses for the components of such adjustments.

**Table of Contents****Reconciliation of GAAP revenues to operating revenues and GAAP expenses to operating expenses****Year Ended December 31, 2012**

	<b>Retail</b>	<b>Group, Voluntary &amp; Worksite Benefits</b>	<b>Corporate Benefit Funding</b>	<b>Latin America</b>	<b>Asia</b>	<b>EMEA</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
	<b>(In millions)</b>							
Total revenues	\$ 19,939	\$ 17,436	\$ 9,436	\$ 4,845	\$ 12,793	\$ 4,279	\$ (578)	\$ 68,150
Less: Net investment gains (losses)	212	(7)	107	(2)	(342)	31	(351)	(352)
Less: Net derivative gains (losses)	162	(63)	(157)	38	(170)	61	(1,790)	(1,919)
Less: Adjustments related to net investment gains (losses) and net derivative gains (losses)						15		15
Less: Other adjustments to revenues (1)	(77)	(140)	62	232	549	813	616	2,055
 Total operating revenues	 \$ 19,642	 \$ 17,646	 \$ 9,424	 \$ 4,577	 \$ 12,756	 \$ 3,359	 \$ 947	 \$ 68,351
 Total expenses	 \$ 19,483	 \$ 16,206	 \$ 7,584	 \$ 4,289	 \$ 11,746	 \$ 3,792	 \$ 3,608	 \$ 66,708
Less: Adjustments related to net investment gains (losses) and net derivative gains (losses)								
	19				4			